

**CONVERSION
of BASF Aktiengesellschaft
into a
European Company
(Societas Europaea, SE)
with the company name
BASF SE**

**Conversion
Documentation**



The Chemical Company

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PART A

Conversion Plan

CONVERSION PLAN

for the conversion with a change of the legal form of

BASF Aktiengesellschaft, Ludwigshafen am Rhein, Germany

– hereinafter also referred to as "BASF AG" –

into the

legal form of a *Societas Europaea* (SE)

– hereinafter also referred to as "BASF SE" –

Preamble

BASF AG is a stock corporation (*Aktiengesellschaft*) under German law with its registered office and head office in Ludwigshafen am Rhein, Germany. It is registered in the commercial register of the local court in Ludwigshafen am Rhein under the entry number HRB 3000. Its business address is Carl-Bosch-Straße 38, 67056 Ludwigshafen, Germany. BASF AG is the largest operating company within BASF Group ("BASF Group") and holds, directly or indirectly, the shares in the companies belonging to BASF Group.

As of today, the subscribed capital of BASF AG amounts to Euro 1,282,790,400.00 and is divided into 501,090,000 no-par value shares . The proportionate amount per share of the subscribed capital of BASF AG is Euro 2.56 per share. Pursuant to Section 3 No. 3 of the articles of association of BASF AG, the shares are made out to the bearer.

It is intended to convert BASF AG into a European Company (*Societas Europaea*, SE) pursuant to Art. 2 para. 4 in connection with Art. 37 of Council Regulation (EC)

No. 2157/2001 of October 8, 2001, on the Statute for a European company (SE) ("SE Regulation"). The legal form of an SE is the only supranational legal form based on European law currently available to a listed company with its registered office in Germany.

The change of the legal form from a stock corporation into a European Company demonstrates also externally the self-conception of BASF as a company with a European and global orientation. Furthermore, the legal form of a European Company presents an opportunity to further develop the corporate governance structure of BASF AG and to continue to optimize the work of the corporate bodies of the company. The opportunity to reduce the size of the supervisory board makes an important contribution in this regard. The supervisory board will continue to be composed on a parity basis so that half of its members will be employee representatives. However, subject to an agreement to this effect in the course of the involvement of employees, these representatives will not be exclusively appointed by the employee representatives of BASF Group in Germany and the German labour unions, but with the involvement of the employee representatives and labour unions from other member states of the European Union ("EU") or, respectively, a signatory state to the European Economic Area ("EEA").

The registered office and the head office of the company will continue to be situated in Germany.

The board of executive directors of BASF AG therefore prepares the following conversion plan:

Section 1

Conversion of BASF AG into BASF SE

BASF AG is being converted into a European Company (*Societas Europaea*, SE) pursuant to Art. 2 para. 4 in connection with Art. 37 SE Regulation.

For more than two years BASF AG has had a large number of subsidiaries which are governed by the laws of other member states of the EU, amongst others BASF Nederland B.V. with its registered office in Arnhem, the Netherlands, which was established by BASF AG on November 2, 1954, and which is registered in the commercial register (Handelsregister van de Kamers van Koophandel voor Centraal Gelderland). The requirements for the conversion of BASF AG into BASF SE pursuant to Art. 2 para. 4 SE Regulation are thereby fulfilled.

The conversion of BASF AG into an SE does neither lead to a liquidation of the company nor to the formation of a new legal entity. The interests of the shareholders in the Company continue to exist unchanged because of the preservation of the identity of the legal entity.

Section 2 Effectiveness of the conversion

The conversion becomes effective upon the registration in the commercial register.

Section 3 Company name, registered office, subscribed capital and statutes of BASF SE

- 3.1 The company name of the SE is "BASF SE".
- 3.2 The registered office of BASF SE is located at Ludwigshafen am Rhein, Germany; this is also the place of its head office.
- 3.3 The entire subscribed capital of BASF AG in the amount existing at the point in time of the registration of the conversion in the commercial register (current amount: Euro 1,282,790,400,00) and as divided into no-par value shares made out to the bearer (current number of shares: 501,090,000) becomes the subscribed capital of BASF SE. The persons and companies who are shareholders of BASF AG at the point in time of the registration of the conversion in the commercial register become shareholders of BASF SE to the same extent and with the same number of shares in the subscribed capital of BASF SE corresponding to their participation in the subscribed capital of BASF AG immediately prior to the conversion becoming effective. The arithmetic portion of each no-par value share in the subscribed capital (currently Euro 2.56) is maintained in exactly the way it existed immediately prior to the conversion becoming effective.
- 3.4 BASF SE shall have the statutes enclosed as an **Annex**. It constitutes an integral part of this conversion plan. In this regard, at the point in time of the effectiveness of the conversion of BASF AG into an SE the following applies:
 - (i) the amount of the subscribed capital of BASF SE with its division into no-par value shares as stipulated in Section 5 Nos. 1 and 2 of the statutes of BASF SE corresponds to the amount of the subscribed capital of BASF AG with its division into no-par value shares (Section 3 Nos. 1 and 2 of the articles of association of BASF AG) and

- (ii) the amount of the authorized capital pursuant to Section 5 No. 8 of the statutes of BASF SE corresponds to the amount of the authorized capital still available pursuant to Section 3 No. 7 of the articles of association of BASF AG.

The conditional capitals provided for in the articles of association of BASF AG in Section 3 Nos. 8 to 11 have become irrelevant or the underlying claims have become subject to the statute of limitations, respectively. Therefore, they are not included in the statutes of BASF SE.

In view of this, the supervisory board of BASF SE is authorized and instructed to make any amendments to the wording of the enclosed statutes of BASF SE which relate to the amounts or the division of the capitals and which result from the aforementioned before the registration of the conversion in the commercial register of BASF AG.

- 3.5 Shareholders who object to the conversion are not being offered a cash compensation, since this is not provided for by statutory law.

Section 4 Board of executive directors

Notwithstanding the statutory competences of the supervisory board of BASF SE, it is to be assumed that the current acting members of the board of executive directors of BASF AG will be appointed as members of the board of executive directors of BASF SE. The current members of the board of executive directors of BASF AG are Dr. Jürgen Hambrecht (Chairman), Eggert Voscherau (Vice Chairman), Dr. Kurt Bock, Dr. Martin Brudermüller, Dr. John Feldmann, Dr. Andreas Kreimeyer, Klaus Peter Löbbe, Dr. Stefan Marcinowski and Peter Oakley.

Section 5 Supervisory board

- 5.1 Pursuant to Section 10 No. 1 of the statutes of BASF SE (cf. the Annex), BASF SE is to have a supervisory board which, in deviation from the current situation at BASF AG, comprises twelve instead of twenty members. Of the twelve members, six members are appointed upon proposals of the employees. The proposals of the employees are binding on the general meeting. If an agreement regarding the participation of the employees concluded in accordance with the Act on the Participation of Employees in a European Company (*SE-Beteiligungsgesetz* –

"SEBG") stipulates a different appointment procedure for the employee representatives on the supervisory board, the employee representatives will not be appointed by the general meeting, but in accordance with the agreed appointment procedure.

5.2 The terms of office of the shareholder representatives as well as the terms of office of the employee representatives on the supervisory board of BASF AG terminate upon the effectiveness of the conversion.

Of the shareholder representatives on the supervisory board of BASF AG, the following members are to be appointed as members of the supervisory board of BASF SE (see Section 10 No. 2 of the statutes of BASF SE which are enclosed to this conversion plan as an Annex):

- Prof. Dr. François N. Diederich, Zurich/Switzerland
Professor at the Swiss Federal Institute of Technology Zurich (*Eidgenössische Technische Hochschule Zürich*)
- Michael Diekmann, Munich
Chairman of the management board of Allianz SE
- Dr. Tessen von Heydebreck, Frankfurt am Main
Member of the board of management of Deutsche Bank AG
- Max Dietrich Kley, Heidelberg
Lawyer
- Prof. Dr. Jürgen Strube, Mannheim
Chairman of the supervisory board of BASF Aktiengesellschaft

Furthermore, as shareholder representative on the supervisory board of BASF SE shall be appointed:

- Franz Fehrenbach, Stuttgart
Chairman of the board of management of Robert Bosch GmbH

The shareholder representatives on the supervisory board of BASF SE are to be appointed taking into account the results of the employee involvement procedure (see Section 6 below).

Section 6

Information on the procedure for arrangements for employee involvement

- 6.1 In order to safeguard the rights to participate in entrepreneurial decisions acquired by the employees of BASF AG, in the course of the conversion into an SE a procedure for the involvement of the employees at BASF SE is to be conducted. The objective is the conclusion of an agreement regarding the involvement of employees in the SE, i.e., in particular, regarding the participation of the employees in the supervisory board of BASF SE and the procedure for the information and consultation of employees either by establishment of an SE works council or in another way to be agreed upon with the board of executive directors of BASF AG.

The procedure for the involvement of employees is characterised by the principle of protecting the acquired rights of the employees of BASF AG. The extent of the involvement of the employees in the SE is determined by Section 2 para. 8 SEBG which, essentially, follows Art. 2 lit. h) of Council Directive 2001/86/EC of 8 October 2001 supplementing the Statute for a European company with regard to the involvement of employees. Involvement of employees is the collective term for any mechanism, including, in particular, information, consultation and participation, through which employees' representatives may exercise an influence on decisions to be taken within the company. Information in this context means the informing of the SE works council or other employees' representatives by the management of the SE on questions which concern the SE itself and any of its subsidiaries or establishments situated in another member state or which exceed the powers of the decision-making organs in a single member state. Consultation means, in addition to employees' representatives expressing an opinion on matters relevant for the decision-making process, the exchange of views between employees' representatives and management and a dialogue with the objective of reaching agreement, however, with the company management remaining free in its decision. The most far-reaching influence is being conferred by participation; pursuant to Section 2 para. 12 SEBG the term either refers to the right to appoint or elect members of the supervisory organ or, alternatively, to recommend such members for appointment or to reject such recommendations made by a third party.

- 6.2 As parent company of BASF Group, BASF AG currently has a supervisory board with twenty members which is composed on a parity basis in accordance with the German Co-Determination Act 1976 (*Mitbestimmungsgesetz* – "MitBestG 1976").

With regard to the ten employee representatives on the supervisory board of BASF AG, presently only the employees of the group companies employed in Germany have the active and passive voting right in accordance with the MitbestG 1976. The provisions of the MitBestG 1976 regarding the representation of employees on the supervisory board of BASF AG are being replaced by the stipulations of the SEBG. (With regard to the other consequences of the change of the legal form for the employees and their representative bodies see Section 7 below) Upon the effectiveness of the conversion of BASF AG into an SE, the terms of office of the employee representatives as well as the terms of office of the shareholder representatives on the supervisory board of BASF AG terminate (see Section 5 above). The shareholder representatives on the new supervisory board of BASF SE are already appointed in the statutes of BASF SE. The employee representatives on the first supervisory board of BASF SE will be appointed after the completion of the procedure for the involvement of employees. It is to be expected that the appointment of the first employee representatives will be made by the local court of Ludwigshafen am Rhein (court of registration) as the competent court for BASF SE, unless the agreement regarding the participation of the employees stipulates a different appointment procedure.

In addition to the supervisory board of BASF AG, there are additional bodies at the level of its group companies in which the employees have participation rights.

In the companies of BASF Group in the EU and the EEA there are bodies representing employees in accordance with legal requirements under applicable national laws. The works council structure of BASF AG follows a two-tier system with the works council in the Ludwigshafen plant and the joint works council. Currently, the joint works council comprises 42 representatives of the German companies within BASF Group. 13 companies delegate two representatives each and 16 companies delegate one representative each to this body.

At the European level, the employee representative bodies are organized within the BASF Euro Dialog, a voluntary agreement on cross-national information and consultation pursuant to Section 41 para. 1 of the European Works Councils Act (*Europäische Betriebsrätegesetz* – "EBRG").

- 6.3 The initiation of the procedure for the involvement of the employees is conducted in accordance with the provisions of the SEBG. The latter requires that the management

body of the participating company, i.e. the board of executive directors of BASF AG, notifies the employees or their representative bodies involved, respectively, about the conversion project and requests them to establish a Special Negotiating Body. The procedure is to be initiated unrequested and without undue delay after the board of executive directors of BASF AG has published the conversion plan prepared by it. The publication is made by virtue of the filing of the conversion plan recorded by a notary public with the competent commercial register in Ludwigshafen am Rhein. The notification of the employees or their representative bodies, respectively, includes, in particular, (i) the names and structure of BASF AG, concerned subsidiaries and concerned establishments, and their distribution among the member states; (ii) the bodies representing employees existing within these companies and establishments; (iii) the number of persons employed in these companies and establishments, and the total number of persons employed in a given member state determined on the basis thereof, and (iv) the number of employees enjoying participation rights in the corporate bodies of these companies.

- 6.4 It is provided by statutory law that within a period of ten weeks after the notification of the employees or, respectively, their representative bodies described in Section 6.3 the employees or their representative bodies, respectively, elect or appoint the members of the Special Negotiating Body, which is composed of employee representatives from all member states of the EU and from all signatory states of the EEA involved.

It is the task of this Special Negotiating Body to negotiate with the management of the company the procedural details of the involvement procedure and the determination of the participation right of the employees within the SE.

The establishment and composition of the Special Negotiating Body are, in principle, subject to German law (Sections 4 to 7 SEBG). The allocation of the seats in the Special Negotiating Body to the individual member states of the EU and the signatory states to the EEA in which BASF Group has employees is governed, in respect of the formation of an SE with its registered office in Germany, by Section 5 para. 1 SEBG: The allocation of the seats follows the following basic principles:

Each member state of the EU and signatory state to the EEA in which BASF Group has employees is allocated at least one seat. The number of seats allocated to a member state of the EU or a signatory state to the EEA is increased by 1 in each case

where the number of employees employed in this member state of the EU or signatory state to the EEA exceeds the thresholds of 10%, 20%, 30% etc. of all employees of BASF Group within the EU or of the EEA, respectively. The relevant point in time for the determination of the allocation of seats is, in principle, the time of the notification of the employees or the respective employee representative bodies (cf. Section 4 para. 4 SEBG).

On the basis of the employee figures of BASF Group in the individual member states of the EU and the signatory states to the EEA as of December 31, 2006, the following allocation of seats applies:

Country	Number of employees	% (rounded)	Representatives in the Special Negotiating Body
Austria	119	0.18	1
Belgium	4,101.1	6.25	1
Bulgaria	17	0.03	1
Czech Republic	230	0.35	1
Denmark	297	0.45	1
Finland	128	0.2	1
France	2,351.5	3.58	1
Germany	51,148.45	77.98	8
Greece	79	0.12	1
Hungary	132	0.2	1
Ireland	16	0.02	1
Italy	1,517	2.31	1
Lithuania	16	0.02	1
Malta	1	0.0	1
The Netherlands	1,096	1.67	1
Norway	32	0.05	1
Poland	271	0.41	1
Portugal	450	0.69	1
Romania	32	0.05	1

Country	Number of employees	% (rounded)	Representatives in the Special Negotiating Body
Sweden	198	0.3	1
Slovakia	130	0.2	1
Slovenia	38	0.06	1
Spain	1,919	2.93	1
United Kingdom	1,270.5	1.94	1
Total (24 countries)	65,589.55	100	31

With regard to the election or appointment, respectively, of the members of the Special Negotiating Body from the individual EU member states and EEA signatory states the relevant national provisions of law apply. Thus, a variety of procedures are being applied, such as the election by direct vote, appointment by labour unions or, as is the case under German law, the election by an election body (cf. Section 8 SEBG); in the case of BASF AG, this body is the joint works council. The election or, respectively, appointment of the members as well as the establishment of the Special Negotiating Body is, in principle, the responsibility of the employees and their representative bodies involved and of the relevant unions, respectively.

- 6.5 At the earliest after the determination of all members of the Special Negotiating Body, but no later than 10 weeks after the notification pursuant to Section 4 para. 2 and para. 3 SEBG (cf. Sections 12 para. 1, 11 para. 1 SEBG), the board of executive directors of BASF AG has to issue, without undue delay, the invitations for the constituent meeting of the Special Negotiating Body. On the day of the constituent meeting, the procedure for the establishing of the Special Negotiating Body ends and the negotiations begin for which a duration of up to six months is provided for under statutory law. This period may be extended to a period of up to one year by mutual consent of the parties to the negotiation.

The negotiation procedure takes place also if the period for the election or appointment of individual or all members of the Special Negotiating Body is exceeded for reasons within the responsibility of the employees (Section 11 para. 2 sentence 1 SEBG).

Members who are being elected or appointed during the course of the negotiations are not finally excluded; they may, at any time, participate in the negotiation procedure (Section 11 para. 2 sentence 2 SEBG). However, a member joining the ongoing negotiations has to accept the current status of the negotiations at that time. There is no claim for an extension of the six-months negotiation period (Section 20 SEBG).

The objective of the negotiations is the conclusion of an agreement regarding the involvement of employees in BASF SE. The subject matter of the negotiations is the participation of the employees in the supervisory board of BASF SE and the determination of the procedure for the information and consultation of employees either by establishment of an SE works council or in another way.

- 6.6 As required by Art. 40 para. 3 SE Regulation, Section 17 para. 1 SE Implementation Act (*SE-Ausführungsgesetz* – "SEAG"), the statutes have to stipulate the number of members of the supervisory board or the rules for the determination of such number. Section 10 No. 1 of the statutes of BASF SE stipulates that the future supervisory board shall comprise twelve members. In this regard, it is mandatory that the principle of composition on a parity basis be maintained (cf. Sections 15 para. 5, 16 para. 3 SEBG). Accordingly, the statutes of BASF SE provide that six of the members of the supervisory board are to be appointed upon the proposal of the employees.

Art. 12 para. 4 SE Regulation stipulates that the statutes of the SE may not, at any time, contradict a negotiated agreement. Therefore, if necessary, the statutes have to be amended by resolution of the general meeting of BASF AG in case that a deviating stipulation regarding the participation of the employees is laid down in an agreement on the involvement of employees in the future BASF SE. The conversion of BASF AG into an SE would only become effective after the registration of the alteration of the statutes in the commercial register of the company.

No resolution may be adopted which results in a reduction of employee participation rights (cf. Section 15 para. 5 SEBG). Equally, no resolution may be adopted to the effect that no negotiations should be entered into or that negotiations already entered into should be broken off (cf. Section 16 para. 3 SEBG). In the event that such agreement regarding employee involvement is not concluded, employee participation is governed by the subsidiary regulation by operation of law which is explained in Section 6.9 below.

6.7 Furthermore, in the agreement between the executive board of directors and the Special Negotiating Body a procedure is to be stipulated for the purpose of the information and consultation of the employees in the SE. This may be achieved by establishing an SE works council or by another procedure stipulated by the parties to the negotiations which facilitates the information and consultation of the employees of BASF SE. In the case of the establishment of an SE works council, the following has to be stipulated: the scope of application, the number of its members and the allocation of seats, the functions and the procedure for its information and consultation, the frequency of meetings, the financial and material resources to be made available, the date of entry into force and the duration of the agreement as well as the circumstances in which the agreement is to be renegotiated and the procedure to be used in this regard. Instead of establishing an SE works council, another procedure may also be stipulated which facilitates the information and consultation of the employees.

Further, it is to be stipulated in the agreement that negotiations concerning the involvement of employees in the SE shall also be opened prior to structural changes to the SE.

6.8 The conclusion of an agreement between the management of the company and the Special Negotiating Body regarding the involvement of employees requires a resolution adopted by the Special Negotiating Body. The resolution is to be adopted by a majority of the appointed members, provided that this majority also represents a majority of the represented employees. No resolution may be adopted which results in a reduction of employee participation rights (cf. Section 15 para. 5 SEBG). It is also not permissible to refrain from entering into or to abandon negotiations (cf. Section 16 para. 3 SEBG).

6.9 If no agreement regarding the involvement of employees is being reached within the negotiation period, a subsidiary regulation by operation of law applies; the latter may also be agreed upon from the outset as the content of the agreement.

In the event that the subsidiary regulation by operation of law applies, it is mandatory that with regard to employee participation the principle of participation on a parity basis, which is already applied at BASF AG, is continued also in respect of the supervisory board of BASF SE, with the consequence that half of the members of the supervisory board of BASF SE would be employee representatives. However, in

contrast to the current situation regarding the employee representatives on the supervisory board of BASF AG, these representatives would no longer be exclusively appointed by the employees in Germany, but by all employees in the member states of the EU and the signatory states to the EEA to which seats on the supervisory board have been allocated pursuant to Section 36 para. 1 SEBG. The employees would have to appoint, in accordance with the respective provisions applicable in these countries their employee representatives who are to be elected by the general meeting of BASF SE. If no appointment were made, the SE works council would have to make it.

On the basis of the current number of employees and their distribution by countries, in accordance with Section 36 para. 1 SEBG on the supervisory board composed of twelve members on a parity basis there would be five seats for the employees from Germany and one seat for employees of BASF SE from Belgium, with that latter seat to be allocated at the expense of the employees from Germany. This follows from Section 36 para. 1 sentence 3 SEBG, according to which in the event that in the course of the proportionate allocation the employees of one or more member states are not allocated a seat the last seat to be allocated is to be allocated to one of the so far non-represented member states. It follows from the rationale of Section 5 para. 3 SEBG that the seat to be allocated is to be allocated to that member state which has the largest number of employees among the non-represented member states.

With regard to the protection of the right to information and consultation of the employees of BASF SE, the subsidiary regulation by operation of law would have the consequence that an SE works council would have to be established, the function of which would be to safeguard the right to information and consultation of the employees in the SE. The council would be responsible for matters which affect the SE itself, one of its subsidiaries or one of its establishments in another member state or which go beyond the powers of the competent bodies at the level of the individual member states. The SE works council would have to be notified and consulted annually with regard to the development of the business situation and the future prospects of the SE. It would have to be notified and consulted with regard to extraordinary circumstances. The composition of the SE works council as well as the election of its members would be determined, in principle, in accordance with the provisions applicable to the composition and appointment of the members of the Special Negotiating Body.

- 6.10 In case the subsidiary regulation by operation of law applies, it is to be reviewed every two years during the existence of the SE by the management of the SE whether changes within the SE, its subsidiaries or its establishments require an alteration of the composition of the SE works council. Besides, in case the subsidiary regulation by operation of law applies, four years after its establishment the SE works council has to resolve with the majority of its members whether negotiations shall be re-opened with regard to an agreement for the involvement of employees within the SE or whether the existing regulations are to remain in place. If a resolution is adopted to enter into negotiations for an agreement regarding the involvement of employees, for the purpose of these negotiations the SE works council replaces the Special Negotiating Body.
- 6.11 The necessary costs arising from the establishment and operation of the Special Negotiating Body will be borne by BASF AG and, after the conversion, by BASF SE. The obligation to bear the costs includes the material and personal expenses incurred in connection with the activities of the Special Negotiating Body, including the negotiations. In particular, premises, material resources (e.g. telephone, telefax, required literature), interpreters and clerical staff required for meetings are to be provided and the travel and subsistence expenses of the members of the Special Negotiating Body are to be met.

Section 7

Other consequences of the conversion for the employees and their representative bodies

- 7.1 The employment contracts of the employees of BASF AG as well as the employment contracts of the employees of BASF Group with the respective Group companies are not affected by the conversion. Equally, with the exception of the procedure for the involvement of employees described in Section 6, the conversion of BASF AG into an SE does not have any consequences for the employees of BASF Group with regard to the participation rights of the employees of BASF AG and of the companies of BASF Group.
- 7.2 Further, there are no other measures intended or planned as a consequence of the conversion which would affect the situation of the employees.

Section 8 Auditor

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, is appointed as auditor for the first financial year of BASF SE.

Section 9 No Additional Rights or Special Rights

- 9.1 To persons in terms of Section 194 para. 1 No. 5 of the German Transformation Act (*Umwandlungsgesetz*) and/or Art. 20 para. 1 lit. f) SE Regulation no rights will be granted in addition to the shares referred to in Section 3.3 and special arrangements are not provided for with regard to these persons.
- 9.2 To persons in terms of Art. 20 para. 1 lit. g) SE Regulation no special rights will be granted within the scope of the conversion.

Ludwigshafen, February 27, 2007

BASF Aktiengesellschaft
The Board of Executive Directors

Hambrecht

Voscherau

Annex: Statutes of BASF SE

PART B

Statutes of BASF SE (Annex to the Conversion Plan)

Translation for convenience – Only the original German version is authoritative and binding.

Annex to the Conversion Plan

Statutes BASF SE

**as of
April 2007**



Chapter I

General Provisions

Article 1 Legal Form, Name and Registered Office

1. The Company is a European Company with the name BASF SE.
2. Its registered office is situated in Ludwigshafen am Rhein, Germany.

Article 2 Purpose of the Company

1. The purpose of the Company is to engage in the following areas of activity:
 - chemistry and related areas,
 - agriculture and nutrition,
 - extraction and production of and dealing in oil, natural gas, mineral oil products and energies,
 - development and production of and dealing in products and the provision of services in the area of environmental technology,as well as the carrying out of any other activities incidental to the activity in said areas or conducive to promoting the same.
2. The Company is authorized to establish branches both in Germany and abroad, and to establish and acquire business undertakings the purposes of which are consistent with, related to or conducive to promoting the ones stipulated in No. 1, both in Germany and abroad, or to acquire interests therein.

Article 3 Financial Year

The financial year corresponds to the calendar year.

Article 4 Announcements

Announcements by the Company shall be made in the electronic German Federal Gazette.

Chapter II

Subscribed Capital and Shares

Article 5 **Subscribed Capital and Shares**

1. The subscribed capital of the Company amounts to Euro 1,282,790,400.00 (in words: Euro one thousand two hundred eighty-two million seven hundred ninety thousand four hundred).

2. The subscribed capital of the Company was provided by way of conversion of BASF Aktiengesellschaft into a European Company (SE).

3. The shares of the Company are no-par value shares. The subscribed capital of the Company is divided into 501,090,000 shares.

4. The shares shall be made out to the bearer. Provided that no resolution to the contrary is passed, this provision shall also apply to the new shares in the case of capital increases.

5. The Company may evidence shares by individual or collective certificates. The form and content of the share certificates and of the dividend coupons and talons shall be determined by the Board of Executive Directors, with the consent of the Supervisory Board.

6. The shareholder's right to certificated evidence of his holdings is excluded, unless certification is required under the rules applicable at a stock exchange where the shares are admitted.

7. In the event of a capital increase, participation in profits of the new shares may be determined in deviation from Section 60 of the German Stock Corporation Act.

8. The Board of Executive Directors is authorized, with the consent of the Supervisory Board, to increase until May 1, 2009, on a one-off basis or in portions on a number of occasions, the Company's subscribed capital by a total of up to Euro 500,000,000.00 by issuing new shares against contributions in cash or in kind, however, by no more than up to the amount in which the authorized capital pursuant to Art. 3 No. 7 of the articles of association of BASF Aktiengesellschaft is still existent at the point in time when BASF Aktiengesellschaft is converted into a European Company (SE) in accordance with the conversion plan dated February 27, 2007 (authorized capital). The new shares may be taken over by a bank appointed by the Board of Executive Directors with instructions to offer them to the shareholders (indirect subscription right).

The Board of Executive Directors is authorized to issue up to 15,000,000 of these new shares to employees of the Company and of companies affiliated with the Company. To this extent, the statutory subscription right of shareholders is excluded.

The Board of Executive Directors is further authorized, with the consent of the Supervisory Board, to exclude the statutory subscription right of the shareholders,

- a) in order to acquire companies, parts of companies or holdings in companies in return for the transfer of shares in appropriate individual cases,
- b) as far as this is necessary to prevent dilution in order to grant the owners of option certificates and the creditors of convertible bonds which are issued by the Company or its affiliates in connection with an authorization granted to the Board of Executive Directors by the General Meeting of Shareholders or to grant subscription rights to the holders of option rights issued in connection with share option programs for senior executives submitted to the general meetings on April 29, 1999 and April 26, 2001 to the extent that this would be due to them after exercising the option or conversion right or after fulfilling conversion obligations, and
- c) in order to use any residual amounts.

In the case of capital increases in return for cash contributions, the Board of Executive Directors is also authorized to exclude the statutory subscription right of shareholders, if the issue price of the new shares is not substantially lower than the stock market price and the total number of shares issued under this authorization is not more than 10 percent of the subscribed capital on the date of issue.

Chapter III

Constitution

Article 6 Corporate Bodies of the Company

The corporate bodies of the Company are the Board of Executive Directors, the Supervisory Board and the General Meeting of Shareholders.

A. Board of Executive Directors

Article 7 Composition

1. The members of the Board of Executive Directors shall be appointed and dismissed by the Supervisory Board. The Board of Executive Directors shall consist of at least two members. The Supervisory Board may stipulate a larger number of members.

2. The members of the Board of Executive Directors shall be appointed by the Supervisory Board for a maximum term of five years. Reappointments are permissible.

3. The Supervisory Board may appoint one member of the Board of Executive Directors as Chairman of the Board of Executive Directors and one or more members of the Board of Executive Directors as Vice Chairman.

Article 8 Quorum, Passing of Resolutions

1. The Board of Executive Directors shall constitute a quorum if all members of the Board of Executive Directors have been invited and at least half of its members participate in a meeting in person or by means of electronic media. Members of the Board of Executive Directors who are not present at the passing of a resolution may cast their vote in writing, by telephone, telefax or by means of electronic media.

2. Resolutions of the Board of Executive Directors shall be passed by simple majority of the votes of the members of the Board of Executive Directors participating in the passing of the resolution, unless a larger majority is stipulated by mandatory statutory law. In cases where resolutions are to be passed by a simple majority and there is an equality of votes, the Chairman shall have a casting vote.

Article 9 Representation

1. The Company shall be legally represented by two members of the Board of Executive Directors or by one member of the Board of Executive Directors together with a *Prokurist*.

2. The Board of Executive Directors may grant authority to represent the Company in legal transactions, in particular, in the

form of a *Prokura* in accordance with the provisions of the German Commercial Code. *Prokura* should only be granted in the form of a joint power of attorney (*Gesamtprokura*) together with at least one other person.

B. Supervisory Board

Article 10 Composition, Election, Term of Office

1. The Supervisory Board shall comprise twelve members who are elected by the General Meeting. Of the twelve members, six members shall be elected upon proposals of the employees. The proposals for the election of the employee representatives are binding on the General Meeting. Apart from this, the General Meeting is not bound to proposals for the election. If an agreement regarding the participation of the employees concluded in accordance with the Act on the Participation of Employees in a European Company (*SE-Beteiligungsgesetz – SEBG*) stipulates a different appointment procedure for the employee representatives on the Supervisory Board, the employee representatives shall not be appointed by the General Meeting, but in accordance with the agreed appointment procedure.

2. The following persons are appointed as members of the first Supervisory Board with a term of office ending upon the conclusion of the General Meeting resolving on a formal discharge of the Supervisory Board for the financial year of the Company ending on December 31, 2008:

- Prof. Dr. François N. Diederich, Zürich/Schweiz
Professor at the Swiss Federal Institute of Technology Zurich
(*Eidgenössische Technische Hochschule Zürich*)
- Michael Diekmann, München
Chairman of the management board of Allianz SE
- Franz Fehrenbach, Stuttgart
Chairman of the board of management of Robert Bosch GmbH
- Dr. Tessen von Heydebreck, Frankfurt am Main
Member of the board of management of Deutsche Bank AG
- Max Dietrich Kley, Heidelberg
Lawyer
- Prof. Dr. Jürgen Strube, Mannheim
Chairman of the Supervisory Board of BASF Aktiengesellschaft

The other six members of the Supervisory Board are appointed upon proposals of the employees.

3. Subject to No. 2, the appointment of the members of the Supervisory Board is made for a term until the conclusion of the

General Meeting resolving on the formal discharge of the Supervisory Board for the fourth financial year after the term of office commenced, with the financial year in which the term of office commences not being taken into account, however, for no longer than for a period of six years. Reappointments are permissible.

4. A member of the Supervisory Board may, upon giving one month's notice in writing, resign from office at any time. Any member elected by the General Meeting may be removed from office prior to the end of the term for which he has been elected by a resolution of the General Meeting.

5. Elections of substitutes for retired members who are not replaced by substitute members shall be made for the remainder of the term of office of the retired member. Elections of substitutes should be conducted at the next General Meeting following the retiring of a member.

Article 11 **Chairmanship**

1. The Supervisory Board shall elect a Chairman and one or more Deputy Chairmen. Only a shareholder representative elected as a member by the General Meeting may be elected as Chairman. For the election of the Chairman, the oldest member in terms of age among the shareholder representatives shall have the chair; Article 12 No. 2 sentence 3 shall apply accordingly.

2. In case the membership of the Chairman or one of his deputies should cease before the expiry of his term of office, the Supervisory Board shall conduct a new election for the office without undue delay.

Article 12 **Convening, Quorum, Voting**

1. Meetings of the Supervisory Board shall be convened and the place of such meetings determined by the Chairman or, in case he is unavailable, by his deputy determined for such eventuality. All meetings shall be convened by at least a fortnight's notice in writing. The individual items on the agenda shall be specified so that it is possible to vote by correspondence. In urgent cases, the convening period may be shortened. In the event that the Chairman or, if he is unavailable, his deputy determined for such eventuality so determines in an individual case, meetings may also be held using telecommunications or individual members of the Supervisory Board may take part in meetings using telecommunications.

2. The Supervisory Board shall constitute a quorum only if, after all members have been invited, at least one half of the total number of members which it is required to have participates in the passing of a resolution. Unless stipulated otherwise by law,

resolutions shall be passed by a majority of the votes cast. In the event that a member of the Supervisory Board abstains from voting, such member participates in the resolution; however, the abstention shall not count as a vote cast. In the event that a Supervisory Board vote results in an equality of votes, the vote of the Chairman of the Supervisory Board or, if he does not participate in the passing of the resolution, the vote of the Deputy Chairman, provided that he is a shareholder representative, shall be the casting vote.

3. The members of the Supervisory Board may, if prevented from attending a meeting, arrange for their written vote to be submitted at the Supervisory Board meeting by other members of the Supervisory Board. A vote transmitted by telefax or by means of electronic media shall be deemed to be a written vote. The Chairman of the Supervisory Board or, if he is unavailable, his deputy determined for such eventuality may cause a resolution of the Supervisory Board to be passed by obtaining declarations in writing, by telefax or telephone or transmitted by means of other electronic media.

4. The members of the Board of Executive Directors are entitled to attend the meetings of the Supervisory Board in an advisory capacity, unless the Chairman of the Supervisory Board or the Supervisory Board excludes such right in an individual case.

5. Declarations of intent on behalf of the Supervisory Board shall be made by the Chairman or, if he is unavailable, by his deputy determined for such eventuality.

6. The Supervisory Board is authorized to make amendments to the statutes which only concern their wording.

Article 13 Transactions Requiring Consent

1. The Board of Executive Directors shall require the previous consent of the Supervisory Board for the following transactions of the Company:

- a) the acquisition and disposal of enterprises, interests in enterprises and parts of enterprises, provided that the acquisition or disposal price in an individual case exceeds 3 percent of the equity reported in the last consolidated financial statements of the Company which were approved by the Supervisory Board. This shall not apply in the event of intra-group acquisitions and disposals;
- b) commencement of operations in new and cessation of operations in existing areas of business to the extent that this is of significant importance for the entire Group;

- c) the issuing of bonds and comparable financial instruments, the taking up of and granting of long-term loans and the granting of guarantees, warranties or other assumptions of liability, provided that in an individual case the latter exceed 3 percent of the equity reported in the last consolidated financial statements of the Company which were approved by the Supervisory Board. This shall not apply to the taking up and granting of loans and the granting of securities within the company group.

2. The consent of the Supervisory Board required under No. 1 may also be granted in the form of a general authorization for certain kinds of the aforementioned transactions. Such authorizations have to state specifically the eligible transactions as well as their purpose and the period of time within which they have to be conducted.

Article 14 **Remuneration of the Supervisory Board**

1. Each member of the Supervisory Board shall receive annually

- a) a fixed remuneration of Euro 60,000 and
- b) a performance-related variable remuneration for each full Euro 0.01 by which the earnings per share (EPS) of BASF Group declared in the consolidated financial statements for the year for which the remuneration is being paid exceeds the minimum EPS. The minimum EPS for the financial year 2007 shall be Euro 2.60. The performance-related variable remuneration shall be Euro 400 for each full Euro 0.01 of EPS up to an EPS of Euro 4.10, Euro 300 for each further Euro 0.01 of EPS up to an EPS of Euro 5.10 and Euro 200 for each Euro 0.01 beyond this. The performance-related variable remuneration shall be limited to a maximum amount of Euro 120,000. The minimum EPS shall increase by Euro 0.10 for each subsequent financial year. This shall apply *mutatis mutandis* to the threshold values specified in sentence 3.

The Chairman of the Supervisory Board shall receive two and a half times, a Deputy Chairman one and a half times the remuneration of a regular Supervisory Board member.

2. Members of the Supervisory Board who are members of a committee shall receive a further fixed remuneration for this purpose in the amount of Euro 12,500. In the case of the Audit Committee, the further fixed remuneration shall be Euro 25,000. The Chairman of a committee shall receive twice, a Deputy Chairman one and a half times the further fixed remuneration.

3. The Company shall reimburse the members of the

Supervisory Board for out-of-pocket expenses and value added tax to be paid with regard to their activities as members of the Supervisory Board or of a committee. The Company shall further grant the members of the Supervisory Board an attendance fee of Euro 500 for attending a meeting of the Supervisory Board or one of its committees to which they belong and shall include the performance of the duties of the members of the Supervisory Board in the coverage of a directors' and officers' loss liability insurance concluded by it.

4. Supervisory Board members or members of a committee, who served on the Supervisory Board or the committee for only part of a financial year, shall receive one twelfth of the remuneration for each month or part of a month of service.

5. The remuneration pursuant to Nos. 1 and 2 shall become due after the conclusion of the General Meeting to which the consolidated financial statements specified in No. 1 are submitted or which decides on the approval thereof.

Article 15 **Confidentiality**

1. The members of the Supervisory Board shall keep secret any confidential information, reports and consultations as well as secrets of the Company, in particular company and business secrets, that have become known to them in connection with their work as members of the Supervisory Board.

2. Upon retirement from office, every member of the Supervisory Board shall return to the Company all confidential documents of the Company still held by him.

C. General Meeting of Shareholders

Article 16 **Convening the General Meeting**

1. The General Meeting shall be convened with at least 30 days' notice prior to the day by the end of which the shareholders have to register for participation in the General Meeting.

2. The annual General Meeting of Shareholders shall be held within the first six months of each financial year. It shall resolve, in particular, on the distribution of retained profits, on the appointment of the auditor, on the formal discharge of the members of the Board of Executive Directors and the Supervisory Board, on the appointment of the members of the Supervisory Board and, to the extent required by law, on the approval of the financial statements and the consolidated financial statements.

3. The General Meeting shall take place at the Company's registered office or in another city in the Federal Republic of Germany with at least 100,000 inhabitants.

4. The annual General Meeting of Shareholders shall be convened by the Board of Executive Directors. In addition, a General Meeting may be convened at any time by the Board of Executive Directors or by the Supervisory Board and the convening of the General Meeting and the drawing-up of the agenda therefore may be requested by one or more shareholders who together hold at least 5% of the subscribed capital.

Article 17 Attendance at the General Meeting

1. The right to attend and vote at a General Meeting shall be restricted to those shareholders who have registered for attendance before the General Meeting in writing, by telefax or in text form. The registration must be received by the office specified in the invitation no later than the end of the seventh day before the General Meeting. The Company must be provided with evidence of the right to attend the General Meeting and to exercise the voting right. Evidence of the shareholding shall be provided in writing, by telefax or in text form. Confirmation by the depository holding the shares shall suffice as evidence. The evidence shall be provided in the German or English language. It shall refer to the date prior to the General Meeting specified in the invitation and shall be received by the office specified in the invitation no later than the end of the seventh day before the General Meeting.

2. The deadlines pursuant to the provisions of Articles 16 and 17 shall be calculated backward from the date of the General Meeting, which itself shall not be counted; in the event that the deadline does not expire on a working day, the previous working day that is counted shall be relevant.

3. The shareholder may authorize a proxy to exercise his voting right in writing or in any other manner specified by the Board of Executive Directors and announced by the Company in the invitation to the General Meeting.

Article 18 Chairman of the General Meeting

1. The Chairman of the Supervisory Board shall preside as chairman at the General Meeting of Shareholders. If he is unavailable, a member of the Supervisory Board chosen by the Supervisory Board members who were elected by the General Meeting as shareholder representatives from their ranks shall take the chair at the General Meeting. In the event that no member of the Supervisory Board who was elected by the General Meeting as a shareholder representative takes the chair,

the chairman shall be elected by the General Meeting of Shareholders.

2. The chairman of the General Meeting may determine a sequence of the items of the agenda which deviates from the sequence announced in the agenda. Within the framework of the applicable legal provisions, the chairman shall determine the course of the proceedings at the General Meeting, in particular the sequence of speakers as well as the manner, form and sequence of the voting. At the beginning or in the course of the General Meeting, the chairman may reasonably restrict, in terms of time, the right of shareholders to put questions and to speak; such restriction may be employed for the whole course of the General Meeting, for the discussion on individual items of the agenda as well as for individual questions and speaking contributions.

Article 19 **Voting and Resolutions**

1. Each share shall entitle the holder to one vote at the General Meeting.

2. Resolutions of the General Meeting shall require a majority of the votes cast, unless a larger majority or further requirements are stipulated by the SE Regulation (Council Regulation (EC) No. 2157/2001 of October 8, 2001) or the laws applicable to stock corporations in the jurisdiction where the SE has its registered office.

Chapter IV

Financial Statements, Distribution of Profits

Article 20 Financial Statements

The Board of Executive Directors shall, in the first three months of the financial year, prepare the financial statements and management report as well as the consolidated financial statements and the group management report for the preceding financial year and promptly thereafter submit them to the Supervisory Board and to the auditor. At the same time, the Board of Executive Directors shall submit to the Supervisory Board the proposal for the distribution of retained profits which it intends to submit to the General Meeting.

Article 21 Distribution of Retained Profits

The retained profits resulting from the financial statements after depreciation, value adjustments, provisions and reserves shall be distributed among the shareholders, unless the General Meeting resolves otherwise. Instead of or in addition to a cash distribution, a distribution in kind may also be resolved by the General Meeting.

Chapter V

Formation Expenses

Article 22 Formation Expenses

With regard to the conversion of BASF Aktiengesellschaft into BASF SE, the formation expenses up to an amount of Euro 5,000,000 shall be borne by the Company.

Part C

Conversion Report of the Board of Executive Directors of BASF Aktiengesellschaft

Translation for convenience – Only the original German version is authoritative and binding.

CONVERSION REPORT

**of the Board of Executive Directors
of BASF Aktiengesellschaft**

**for the conversion of BASF Aktiengesellschaft,
Ludwigshafen am Rhein, Germany**

into a

**European Company
(*Societas Europaea*, SE)**

with the company name

**BASF SE
Ludwigshafen am Rhein, Germany**

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I. Introduction

The board of executive directors of BASF Aktiengesellschaft ("**BASF AG**" or the "**Company**") has prepared a conversion plan for the conversion of BASF AG into a European Company (*Societas Europaea*, hereinafter also referred to as "**SE**"). This conversion plan was recorded in notarized form on February 27, 2007 (Role of Deeds No. 494/2007 of notary public Ludwig Draxel-Fischer in Ludwigshafen am Rhein) ("**Conversion Plan**").

The conversion is conducted pursuant to Art. 37 in connection with Art. 2 para. 4 of Council Regulation (EC) No. 2157/2001 of October 8, 2001, on the Statute for a European company (SE) ("**SE Regulation**"). In addition, the Law for the Implementation of Council Regulation (EC) No. 2157/2001 of October 8, 2001, on the Statute for a European company (SE) of December 22, 2004 (SE Implementation Act – *SE-Ausführungsgesetz*, "**SEAG**"), applies.

The involvement of the employees in BASF SE (the procedure – including information, consultation and participation – through which employees' representatives may exercise an influence on decisions to be taken within the Company) is governed by the provisions of the Act on the participation of employees in a European Company of December 22, 2004 (SE Employee Participation Act – *SE-Beteiligungsgesetz*, "**SEBG**"). The SEBG implements Council Directive 2001/86/EC of 8 October, 2001, supplementing the Statute for a European company with regard to the involvement of employees ("**SE Employee Involvement Directive**"). In addition, the respective transformation provisions in respect of the SE Employee Involvement Directive in the other member states of the European Union ("**EU**") and in the signatory states of the European Economic Area ("**EEA**") in which BASF Group has employees apply. The German Co-Determination Act 1976 (*Mitbestimmungsgesetz* – "**MitBestG 1976**") which currently applies to BASF AG will not be applicable to BASF SE.

In the conversion process, the identity of the legal entity is preserved, which means that the conversion does neither lead to a liquidation of BASF AG nor to the formation of a new legal entity. Therefore, the participations held in the company by the shareholders continue to exist.

In order for the Conversion Plan to become effective, it is necessary that the general meeting of BASF AG approves the plan. The board of executive directors and the supervisory board of BASF AG have decided to submit the Conversion Plan, including the statutes of future BASF SE, to the annual general meeting of BASF shareholders on April 26, 2007, for approval.

The board of executive directors of BASF AG has prepared this report in accordance with Art. 37 para. 4 SE Regulation. The report gives an explanation and states the reasons for the legal and economic aspects of the conversion and the effects for the shareholders and employees of the transition from the German legal form of an *Aktiengesellschaft* (stock corporation - AG) to the supra-national legal form of an SE.

With regard to the business activities of BASF AG the report merely contains a summary as these activities are not affected by the conversion of BASF AG into BASF SE because of the identity of the legal entity. For further information, reference is made to the Financial Report 2006 (available on the Internet under www.basf.com).

II. BASF Aktiengesellschaft

1. Registered Office/Head Office, Financial Year and Purpose

The registered office of BASF AG is situated in Ludwigshafen am Rhein, Germany; this is also the place of its head office. It is registered in the commercial register of the local court in Ludwigshafen am Rhein under the entry number HRB 3000. Its business address is Carl-Bosch-Straße 38, 67056 Ludwigshafen am Rhein, Germany. The financial year of BASF AG corresponds to the calendar year. BASF AG is the largest operating company within BASF Group and holds, directly or indirectly, the shares in the companies belonging to BASF Group.

BASF AG and its group companies are hereinafter referred to as "**BASF Group of Companies**" or "**BASF Group**".

Pursuant to Section 2 No. 1 of the articles of association of BASF AG, the purpose of BASF AG includes

- activity in the field of chemistry and related branches of science and technology,
- the production, processing, sale of and dealing in chemical products of all kinds, in particular petrochemicals and inorganics, fertilizers, industrial and special chemicals, intermediates, plastics, synthetic fibers and fiber intermediates, colorants and finishing products,
- the provision of services in the field of health and nutrition, in particular the production, sale of and dealing in pharmaceuticals, crop protection agents, seeds, vitamins, biotechnological products, pharmac chemicals and products for animal nutrition and health,
- the extraction, production, sale of and dealing in oil, natural gas, mineral oil products and energies,
- the development, production and sale of products and the provision of services in the area of environmental technology, in particular in the field of waste and sewage treatment and disposal,
- the design, production and sale of technological equipment and plants and the provision of other engineering and design services

as well as the carrying out of any other activities incidental to the activity in said fields or conducive to promoting the same.

BASF AG is authorized to establish branches both in Germany and abroad, and to establish and acquire business undertakings the purposes of which are consistent with, related to or conducive to promoting the ones stipulated in Section 2 No. 1 of its articles of association, both in Germany and abroad, or to acquire interests therein.

2. Business

With more than 95,000 employees, customers in more than 200 countries and more than 150 production sites worldwide, BASF AG is the leading chemical company in the world - The Chemical Company. In the financial year 2006, BASF Group generated sales of Euro 52,610 million, an EBIT of Euro 6,750 million and an annual net income of Euro 3,215 million.

The companies of BASF Group are operating six Verbund sites and more than 150 production sites worldwide. The largest Verbund site is located in Ludwigshafen. In Europe, BASF Group is active in more than 50 countries with more than 400 subsidiaries and other companies in which it holds interests, operates 100 production sites and employs 65,589.55 employees.

14 corporate divisions are responsible for the production and sale of the products of BASF Group. For the purposes of financial communications, these divisions are grouped into the segments Chemicals, Plastics, Performance Products, Agricultural Products and Nutrition as well as Oil and Gas.

a) Chemicals

The Chemicals segment comprises the corporate divisions **Inorganics**, **Catalysts**, **Petrochemicals** and **Intermediates**. Plasticizers, solvents, glues and resins, as well as electronic grade chemicals are just a few examples of our wide variety of products. The new corporate division Catalysts comprises, amongst others, the catalysts and material services business of acquired Engelhard Corporation. Key customer segments for our products include the chemical, pharmaceutical, electronics, textile and automotive industries.

b) Plastics

The Plastics segment comprises the corporate divisions **Styrenics**, **Performance Polymers** and **Polyurethanes**. In standard plastics, BASF Group concentrates on selected product lines and highly efficient marketing processes. In its specialties business, BASF Group offers a

wide range of high-value products, system solutions and services. Our main customers are companies in the automotive, packaging, construction and electrical/electronics industries.

c) Performance Products

In the business divisions **Performance Chemicals** and **Functional Polymers**, which together with the business divisions **Coatings** and **Construction Chemicals** form the Performance Products segment, BASF Group produces a wide range of innovative products and system solutions which are used by customers to make products for the textile, automotive and paper industries, as well as detergents, hygiene articles, adhesives and construction materials. In its Coatings division, BASF Group focuses on developing and producing coatings for the automotive industry and for industrial applications. The new business division Construction Chemicals, which comprises the business activities acquired from Degussa AG, develops, produces and markets, as the global market and technology leader, intelligent system solutions which make the construction process more efficient, safer and environmentally sound.

d) Agricultural Products and Nutrition

The **Agricultural Products and Nutrition** segment consists of the Agricultural Products and Fine Chemicals divisions. Products from our Agricultural Products division protect crops from harmful fungi, insects and weeds, while increasing crop quality and yields. The BASF Plant Science, the technology platform of BASF Group in the field of plant biotechnology, focuses on plants for a more efficient agriculture, healthier nutrition as well as for the use of plants as renewable resources. In the field of **Fine Chemicals**, BASF Group's products include aroma chemicals and UV filters, pharmaceutical excipients and active ingredients as well as vitamins and carotinoids. These high-value products are offered to customers in the cosmetic, pharmaceutical and nutrition industries.

e) Oil and Gas

The **Oil and Gas** segment comprises BASF Group's activities in the fields of exploration and production of oil and natural gas as well as gas trading. The business activities are combined under the roof of Wintershall AG and its subsidiaries. Wintershall explores for and produces oil and natural gas in Europe, North Africa, South America, Russia and the Caspian Sea area. The gas trading activities (transport, storage and distribution of natural gas) in Europe are conducted by the joint-venture company Wingas which is operated together with the Russian partner, Gazprom.

f) Business Development of BASF Group

The following table shows the business development of BASF Group:

Million Euro	2006 IFRS	2005 IFRS	Change in %
Sales	52,610	42,745	23.1
Income from operations before interest, taxes, depreciation and amortisation (EBITDA)	9,723	8,223	18.1
Income from operations (EBIT) before special items	7,257	6,138	18.2
Income from operations (EBIT)	6,750	5,830	15.8
Income before taxes and minority interests	6,527	5,926	10.1
Net income	3,215	3,007	6.9
Earnings per share (Euro)	6.37	5.73	11.2
Dividend per share (Euro)	3.00	2.00	50.0
Cash provided by operating activities	5,940	*5,250	13.1
Additions to tangible and intangible assets	10,039	2,523	297.9
Depreciation of tangible and intangible assets	2,973	2,403	23.7
Return on assets (%)	17.5	17.7	-
Research and development expenses	1,277	1,064	20.0
Number of employees as of December 31	95,247	80,945	17.7

* Before external financing of pension obligations.

(aa) Sales

In 2006, sales increased by 23.1 % to Euro 52,610 million as compared to previous year. The change in sales was due to the following factors:

Million Euro	2006	Share in sales i ncrease (in %)
Volumes	2,358	5.5
Prices	3,530	8.3
Currencies	-96	-0.2
Acquisitions and additions to the scope of consolidation	4,240	9.9
Divestitures	-167	-0.4
	9,865	23.1

In 2006, BASF Group generated 56.1 % of its sales with customers in Europe. North America (NAFTA) accounted for 21.9 % of sales, Asia Pacific for 15.4 % and South America, Africa, Middle East for 6.6 %.

(bb) Income From Operations

Compared with the previous year, income from operations was increased by Euro 920 million to Euro 6,750 million. Income from operations as a percentage of sales was 12.8 % compared with 13.6 % in the previous year.

3. Subscribed Capital and Shareholders

a) Subscribed Capital

The subscribed capital of BASF AG amounts to Euro 1,282,790,400.00 and is divided into 501,090,000 no-par value shares. The proportionate amount of the subscribed capital per share is Euro 2.56 per share. The shares are made out to the bearer.

b) Authorized Capital

Pursuant to Art. 3 No. 7 of the articles of association of BASF AG, the board of executive directors of BASF AG is authorized, with the consent of the supervisory board, to increase until May 1, 2009, on a one-off basis or in portions on a number of occasions, the Company's subscribed capital by a total of up to Euro 500,000,000.00 by issuing new shares against contributions in cash or in kind (authorized capital). The new shares may be taken over by a bank appointed by the board of executive directors with instructions to offer them to the shareholders (indirect subscription right).

The board of executive directors is authorized to issue up to 15,000,000 of these new shares to employees of the Company and of affiliated companies of the Company. To this extent, the statutory subscription right of shareholders is excluded.

The board of executive directors is further authorized, with the consent of the supervisory board, to exclude the statutory subscription right of the shareholders,

- in order to acquire companies, parts of companies or holdings in companies in return for the transfer of shares in appropriate individual cases,
- as far as this is necessary to prevent dilution in order to grant the owners of option certificates and the creditors of convertible bonds which are issued by the Company or its

affiliates in connection with an authorization granted to the board of executive directors by the general meeting of shareholders or to grant subscription rights to the holders of option rights issued in connection with share option programs for senior executives submitted to the general meetings on April 29, 1999, and April 26, 2001, to the extent that this would be due to them after exercising the option or conversion right or after fulfilling conversion obligations, and

- in order to use any residual amounts.

In the case of capital increases in return for cash contributions, the board of executive directors is also authorized to exclude the statutory subscription right of shareholders, if the issue price of the new shares is not substantially lower than the stock market price and the total number of shares issued under this authorization is not more than 10 percent of the subscribed capital on the date of issue.

c) Conditional Capitals

(aa) Conditional Capital Pursuant to Art. 3 No. 8 of the Articles of Association

Pursuant to Art. 3 No. 8 of the articles of association of BASF AG, the subscribed capital of the Company is conditionally increased in the amount of up to Euro 4,815.36, divided into 1,881 shares. The conditional capital increase will only be implemented to the extent to which the former shareholders of Wintershall Aktiengesellschaft make use of their conversion rights in connection with the integration of Wintershall Aktiengesellschaft into BASF AG. The shares are issued at the ratio of 94.5 shares of the Company for 10 shares of Wintershall Aktiengesellschaft with a nominal value of DM 50.00 each. The new shares are entitled to dividend as of the beginning of the financial year in which the conversion is effected.

(bb) Conditional Capital Pursuant to Art. 3 No. 9 of the Articles of Association

Pursuant to Art. 3 No. 9 of the articles of association of BASF AG, the subscribed capital of the Company is conditionally increased by up to Euro 384,000,000.00 by issuing shares made out to the bearer, divided into up to 150,000,000 shares. The conditional capital increase will only be implemented to the extent that the holders of warrants attached to the option certificates issued by the Company on the basis of the authorization granted to the board of executive directors on April 26, 2001, up to April 1, 2006, make use of their option rights.

The new shares are entitled to dividend from the beginning of the financial year in which the option declaration becomes effective.

(cc) Conditional Capital Pursuant to Art. 3 No. 10 of the Articles of Association

Pursuant to Art. 3 No. 10 of the articles of association of BASF AG, the subscribed capital of the Company is conditionally increased in the amount of up to Euro 38,400,000.00, divided into 15,000,000 shares. The conditional capital increase will only be implemented to the extent that the holders of the 4,190,912 subscription rights issued by the Company in the period from April 30, 1999, to April 25, 2001, in connection with the authorization granted by the general meeting in its resolution of April 29, 1999, to members of the board of executive directors and employees of the Company and to members of the management and employees of affiliated companies as a component of performance-related remuneration have made use of the subscription rights they have been granted. The new shares are entitled to dividend as of the beginning of the financial year for which the general meeting has not yet adopted a resolution on the distribution of profit retained at the point in time of the exercise of the subscription right (Conditional Capital BASF Stock Option Program BOP 1999/2000).

(dd) Conditional Capital Pursuant to Art. 3 No. 11 of the Articles of Association

Pursuant to Art. 3 No. 11 of the articles of association of BASF AG, the subscribed capital of the Company is conditionally increased in the amount of up to Euro 38,400,000.00, divided into 15,000,000 shares. The increase in the conditional capital will only be implemented to the extent that the holders of options which the Company grants to members of the board of executive directors and employees of the Company and members of the management and employees of affiliated companies as a component of performance-related remuneration pursuant to the authorization granted by the resolution adopted by the general meeting on April 26, 2001, make use of the subscription rights for new shares granted to them. The new shares are entitled to dividend as of the beginning of the financial year for which the general meeting has not yet adopted a resolution on the distribution of profit retained at the point in time of the exercise of the subscription right (Conditional Capital BASF Stock Option Program BOP 2001/2005).

d) Shareholders

The subscribed capital of BASF AG exists in the form of no-par value shares issued to the bearer.

Since the shares of BASF AG are made out to the bearer, to the extent that statutory notification obligations are not complied with, it is unknown to BASF AG who its shareholders are and how many shares are being held by a particular shareholder. AXA S.A. has notified the company on January 9, 2007, pursuant to Section 22 para. 1 No. 6 WpHG that it holds 5.17 % of the voting rights in BASF AG. In compliance with U.S. law, Allianz AG (now Allianz SE) has notified the *US Securities and Exchange Commission* (SEC) in May 2006 that it holds 5.4 % of the shares of the company.

BASF AG has conducted a shareholder survey in January 2006. In the survey, 82.5 % of the subscribed capital were accounted for; in respect of the remaining 17.5 % a distribution identical to the one for the part which had been accounted for was assumed: The total number of shareholders amounted to approx. 460,000 (2004: approx. 520,000). 72 % of the subscribed capital were held by institutional and 28 % by private investors. 54.9 % of the subscribed capital were held by foreign shareholders.

The portion of U.S. shareholdings amounted to 13.5 %. On the whole, due to the significant increase of shares held by shareholders from Great Britain (totalling 17.3 %) and from Switzerland (totalling 5.7 %), the share of foreign investors in the subscribed capital increased by 2.5 percentage points as compared with 2004.

4. Constitution of the Company

a) Corporate Bodies

The corporate bodies of the Company are the board of executive directors, the supervisory board and the general meeting of shareholders. The responsibilities of these corporate bodies are governed by the German Stock Corporation Act (*Aktiengesetz*) and by the articles of association of BASF AG.

In a two-tier management and monitoring system, the board of executive directors and the supervisory board as corporate bodies work independently from each other and no person can be a member of both corporate bodies at the same time. Pursuant to its articles of association, BASF AG is represented by two members of the board of executive directors or by one member of the board of executive directors together with a *Prokurist* (i.e. an executive holding a general power of attorney).

(aa) Board of Executive Directors

The board of executive directors of BASF AG comprises nine members.

It conducts the management of the Company in its own responsibility and represents BASF AG in transactions with third parties. In doing so, it is obliged to act and decide in the enterprise's best interests. It undertakes to increase the sustainable value of the enterprise. The board of executive directors makes its decisions by resolution generally requiring a simple majority. In the event of a tie, the chairman of the board of executive directors has the casting vote.

The board of executive directors informs the supervisory board regularly, without delay and comprehensively of all issues relevant to the Company with regard to planning and business development, the risk situation and risk management. It coordinates the strategic approach of BASF AG with the supervisory board. With regard to certain transactions stipulated in the articles of association of BASF AG, the board of executive directors is required to obtain the consent of the supervisory board prior to the conclusion of such transactions.

The members of the board of executive directors are:

Name	Year of birth	Year of first appointment	Responsibility/Task	Supervisory board memberships
Dr. Jürgen Hambrecht	1946	1997 (Chairman since 2003)	Legal, Taxes & Insurance; Strategic Planning & Controlling; Executive Management & Development; Communications BASF Group; Investor Relations	Supervisory board memberships: (a) <ul style="list-style-type: none"> • Bilfinger Berger AG (supervisory board member)
Eggert Voscherau	1943	1996 (Vice Chairman since 2003)	Industrial Relations Director; Human Resources; Environment, Safety & Energy; Corporate & Governmental Relations; Ludwigshafen Verbund Site; Antwerp Verbund Site; Occupational Medicine & Health Protection; Europe; BASF Schwarzheide GmbH	Supervisory board memberships: (a) <ul style="list-style-type: none"> • HDI Haftpflichtverband der Deutschen Industrie VVaG (supervisory board member) • Talanx AG (supervisory board member) • CropEnergies AG (supervisory board chairman) • Deutsch Bahn AG (supervisory board member) • BASF Schwarzheide GmbH (supervisory board chairman) (b) <ul style="list-style-type: none"> • BASF Antwerpen N.V. (administrative council member) • Nord Stream AG (supervisory board member)

Name	Year of birth	Year of first appointment	Responsibility/Task	Supervisory board memberships
Dr. Kurt Bock	1958	2003	Finance; Global Procurement & Logistics; Information Services; Corporate Controlling; Corporate Audit; South America	Supervisory board memberships: (a) <ul style="list-style-type: none"> • Wintershall Holding AG (supervisory board member) • Wintershall AG (supervisory board member) • BASF Coatings AG (supervisory board member) (b) <ul style="list-style-type: none"> • The European Equity Fund Inc. (member of the board of directors) • The Central Europe and Russia Fund Inc. (member of the board of directors)
Dr. Martin Bruder Müller	1961	2006	Asia, Pacific region	Supervisory board memberships:
Dr. John Feldmann	1949	2000	Styrenics; Performance Polymers; Polyurethanes; Oil & Gas; Polymer Research	Supervisory board memberships: (a) <ul style="list-style-type: none"> • Wintershall Holding AG (supervisory board chairman) • Wintershall AG (supervisory board chairman)
Dr. Andreas Kreimeyer	1955	2003	Construction Chemicals; Functional Polymers; Performance Chemicals; Coatings	Supervisory board memberships: (a) <ul style="list-style-type: none"> • BASF Coatings AG (supervisory board chairman)
Klaus Peter Löbbe	1946	2002	Catalysts; North America (NAFTA)	Supervisory board memberships:
Dr. Stefan Marcinowski	1953	1997	Research Executive Director; Inorganics; Petrochemicals; Intermediates; Chemicals Research and Engineering; Corporate Engineering; Science Relations & Innovation Management; BASF Future Business GmbH	Supervisory board memberships: (a) <ul style="list-style-type: none"> • Wintershall Holding AG (supervisory board member) • Wintershall AG (supervisory board member)
Peter Oakley	1953	1998	Agricultural Products; Fine Chemicals; Specialty Chemicals Research; BASF Plant Science GmbH	Supervisory board memberships:

- (a) Memberships in supervisory boards which are to be established pursuant to statutory law.
(b) Memberships in comparable controlling bodies of non-German companies.

The members of the board of executive directors can be contacted under the business address of BASF AG, Carl-Bosch-Straße 38, 67056 Ludwigshafen am Rhein, Germany.

(bb) Supervisory Board

The supervisory board appoints the members of the board of executive directors and consults with and supervises the board of executive directors with regard to the management of the company. Generally, the supervisory board may not assume any management functions. However, the articles of association provide that the board of executive directors may not carry out certain transactions without the consent of the supervisory board. The supervisory board has to convene in meetings at least twice in each half of the calendar year. As a general rule, meetings of the supervisory board are to be held on a quarterly basis.

The supervisory board of BASF AG comprises twenty members. Pursuant to the provisions of the MitbestG 1976, half of its members are representatives of the shareholders and half of its members are representatives of the employees (composition on a parity basis). The shareholder representatives are elected by the general meeting of shareholders. The election of the employee representatives is governed by the provisions of the MitbestG 1976.

The following persons are members of the supervisory board of BASF AG:

Name (Principal Profession)	Position	Member- ship since	Other Memberships
Prof. Dr. Jürgen Strube Chairman of the Supervisory Board of BASF Aktiengesellschaft	Chairman	2003	Committees: <ul style="list-style-type: none"> • Personnel committee (chairman) Supervisory board: <ul style="list-style-type: none"> • Allianz Deutschland AG (supervisory board member since 10/2006) • Allianz Lebensversicherungs-AG (supervisory board member until 10/2006) • Bayerische Motoren Werke AG (supervisory board member) • Bertelsmann AG (deputy supervisory board chairman) • Commerzbank AG (supervisory board member) • Fuchs Petrolub AG (supervisory board chairman) • Hapag-Lloyd AG (supervisory board member) • Linde AG (supervisory board member)
Robert Oswald Chairman of the works council of the Ludwigshafen site of BASF Aktiengesellschaft and chairman of the joint works council of BASF Group	Deputy Chairman	2000	Committees: <ul style="list-style-type: none"> • Personnel committee
Ralf Bastian Member of the works council of the Ludwigshafen site of BASF Aktiengesellschaft	Member	2003	
Wolfgang Daniel Deputy chairman of the works council of the Ludwigshafen site of BASF Aktiengesellschaft	Member	1996	

Name (Principal Profession)	Position	Member- ship since	Other Memberships
Prof. Dr. François N. Diederich Professor at the Swiss Federal Institute of Technology Zurich	Member	1998	
Michael Diekmann Chairman of the board of management of Allianz SE	Member	2003	Supervisory board: <ul style="list-style-type: none"> • Allianz Deutschland AG (supervisory board chairman) • Allianz Global Investors AG (supervisory board chairman) • Dresdner Bank AG (supervisory board chairman) • Linde AG (deputy supervisory board chairman) • Deutsche Lufthansa AG (supervisory board member) Comparable German and non-German controlling bodies: <ul style="list-style-type: none"> • Assurances Générales de France (administrative council member) • Riunione Adriatica di Sicurtà S.p.A. (administrative council member)
Dr. Tessen von Heydebreck Member of the board of managing directors of Deutsche Bank AG	Member	1998	Committees: <ul style="list-style-type: none"> • Personnel committee Supervisory board: <ul style="list-style-type: none"> • Deutsche Bank Privat- und Geschäftskunden AG (supervisory board member) • DWS Investment GmbH (supervisory board member) • BVV Versicherungsverein des Bankgewerbes a. G. (supervisory board member) • Dürr AG (supervisory board member until 05/2006) Comparable German and non-German controlling bodies: <ul style="list-style-type: none"> • Deutsche Bank OOO (supervisory board chairman) • Deutsche Bank Luxembourg S.A. (administrative council chairman) • Deutsche Bank Polska S.A. (supervisory board chairman) • Deutsche Bank Rt. (supervisory board chairman) • Deutsche Bank Trust Corp. (supervisory board member) • DB Trust Company America (supervisory board member)
Arthur L. Kelly Chief executive of KEL Enterprises L.P.	Member	2000	Supervisory board: <ul style="list-style-type: none"> • Bayerische Motoren Werke AG (supervisory board member) Comparable German and non-German controlling bodies: <ul style="list-style-type: none"> • Data Card Corporation (member of the board of directors) • Deere & Company (member of the board of directors) • Northern Trust Corporation (member of the board of directors) • Snap-on Incorporated (member of the board of directors)
Rolf Kleffmann Chairman of the works council of Wintershall Holding AG's Barnstorf oil plant	Member	1998	

Name (Principal Profession)	Position	Member- ship since	Other Memberships
<p>Max Dietrich Kley Lawyer Former Vice Chairman of the board of executive directors of BASF Aktiengesellschaft</p>	Member	2003	<p>Committees:</p> <ul style="list-style-type: none"> • Audit committee (chairman) <p>Supervisory board:</p> <ul style="list-style-type: none"> • HeidelbergCement AG (supervisory board member) • Infineon Technologies AG (supervisory board chairman) • Schott AG (supervisory board member) • SGL Carbon AG (supervisory board chairman) <p>Comparable German and non-German controlling bodies:</p> <ul style="list-style-type: none"> • UniCredito Italiano S.p.A. (administrative council member)
<p>Prof. Dr. Renate Köcher Managing Director of the Institut für Demoskopie Allensbach Gesellschaft zum Studium der öffentlichen Meinung mbH</p>	Member	2003	<p>Supervisory board:</p> <ul style="list-style-type: none"> • Allianz SE (supervisory board member) • MAN AG (supervisory board member) • Infineon Technologies AG (supervisory board member)
<p>Eva Kraut Chairwoman of the works Council of BASF IT Services GmbH, Ludwigshafen</p>	Member	2002	
<p>Ulrich Küppers Regional manager of the Rhineland-Palatinate/Saarland branch of the Mining, Chemical and Energy Industries Union (IG BCE)</p>	Member	1994	<p>Supervisory board:</p> <ul style="list-style-type: none"> • Klinikum der Stadt Ludwigshafen gGmbH (deputy supervisory board chairman) • STEAG Saar Energie AG (deputy supervisory board chairman) • Technische Werke Ludwigshafen AG (TWL) (deputy supervisory board chairman) • Villeroy & Boch AG (supervisory board member)
<p>Konrad Manteuffel Member of the works council of the Ludwigshafen site of BASF Aktiengesellschaft</p>	Member	1999	<p>Supervisory board:</p> <ul style="list-style-type: none"> • BASF Pensionskasse VVaG (deputy supervisory board chairman) • LUWOGGE Wohnungsunternehmen der BASF GmbH (supervisory board member)
<p>Dr. Karlheinz Messmer Plant manager at the Ludwigshafen site of BASF Aktiengesellschaft Chairman of the committee of executive representatives of BASF Aktiengesellschaft</p>	Member	1993	<p>Committees:</p> <ul style="list-style-type: none"> • Audit committee
<p>Hans Dieter Pötsch Member of the board of management of Volkswagen AG</p>	Member	2004	<p>Committees:</p> <ul style="list-style-type: none"> • Audit committee <p>Supervisory board:</p> <ul style="list-style-type: none"> • Allianz Versicherungs AG (supervisory board member) • Bizerba GmbH & Co. KG (supervisory board member; since 01/2007 supervisory board chairman)

Name (Principal Profession)	Position	Member- ship since	Other Memberships
Prof. Dr. Hermann Scholl Chairman of the supervisory council of Robert Bosch GmbH and managing director of Robert Bosch Industrietreuhand KG	Member	1998	Supervisory board: <ul style="list-style-type: none"> • Robert-Bosch GmbH (supervisory board chairman) Comparable German and non-German controlling bodies: <ul style="list-style-type: none"> • Robert Bosch Internationale Beteiligungen AG (member of the administrative council) • Robert Bosch Corporation (member of the board of directors) • Sanofi-Aventis S.A. (member of the administrative council until 05/2006)
Ralf Sikorski Manager of the Ludwigshafen branch of the Mining, Chemical and Energy Industries Union (IG BCE)	Member	2003	
Robert Studer Former chairman of the supervisory board of Union Bank of Switzerland	Member	1993	Comparable German and non-German controlling bodies: <ul style="list-style-type: none"> • Espirito Santo Financial Group S.A. (member of the administrative council) • Renault S.A. (member of the administrative council) • Schindler Holding AG (member of the administrative council)
Michael Vassiliadis Member of the central board of executive directors of the Mining, Chemical and Energy Industries Union (IG BCE)	Member	2004	Committees: <ul style="list-style-type: none"> • Audit committee • Personnel committee Supervisory board: <ul style="list-style-type: none"> • Henkel KGaA (supervisory board member) • K+S AG (deputy supervisory board chairman) • K+S Kali GmbH (deputy supervisory board chairman) • STEAG AG (deputy supervisory board chairman)

The members of the supervisory board can be contacted under the business address of BASF AG, Carl-Bosch-Straße 38, 67056 Ludwigshafen am Rhein, Germany.

From among its members, the supervisory board has established three committees. These are the nomination and compensation committee (personnel committee), the audit committee and the mediation committee. Each of these committees comprises four members. The supervisory board has delegated to the personnel committee, among other matters, the setting of the remuneration of the members of the board of executive directors and the other terms and conditions of their employment contracts. The audit committee makes preparations for the negotiations and resolutions of the supervisory board for the approval of the financial statements and the consolidated financial statements, reviews the Annual Report on Form 20-F that has to be submitted to the U.S. Securities and Exchange Commission and deals with risk monitoring and internal accounting controls. It is also responsible for business relations with the Company's auditors: It prepares the supervisory board's proposal to the general meeting regarding the selection of an auditor, monitors the auditor's independence, defines

the key aspects of the audit together with the auditor, agrees the auditing fees, and establishes the conditions for the provision of so-called non-audit services. The sole task of the mediation committee is to make a proposal for the appointment of a member to the board of executive directors in the event that the necessary two-thirds majority is not attained in the first round of voting in the supervisory board (Section 31 para. 3 sentence 2 MitbestG 1976).

Pursuant to Section 5.2 of the Conversion Plan, the term of office of the acting supervisory board members terminates upon the registration of BASF SE in the commercial register, at the latest, in any event, regularly upon the conclusion of the general meeting of shareholders of the Company in the year 2008.

b) Corporate Governance

BASF AG as a listed German stock corporation is governed by the German Corporate Governance Code, with the recommendations of which it complies with few exceptions (see the declaration of conformity pursuant to Section 161 AktG of December 6, 2006; available on the Internet at www.basf.com).

As a consequence of the listing of the shares of BASF AG (in the form of American Depositary Receipts) on the New York Stock Exchange ("NYSE"), BASF AG is further governed by U. S. capital markets laws, including the Sarbanes-Oxley Act enacted in 2002 as well as the rules of the U. S. securities supervisory authority, the Securities and Exchange Commission (SEC), and of the NYSE.

c) Employees and Co-determination

As of December 31, 2006, BASF Group employed more than 95,000 employees worldwide, 65,589.55 thereof in 24 member states of the EU or signatory states to the EEA, respectively.

With regard to the election of the ten employee representatives on the supervisory board of BASF AG, which is to be composed on a parity basis pursuant to the MitbestG 1976, the German employees of BASF Group have the active and passive voting right in accordance with the MitbestG 1976. Besides, there are additional corporate bodies in other companies of BASF Group in which the employees have participation rights.

In the group companies of BASF AG there are bodies representing employees in accordance with legal requirements under applicable national laws. The works council structure of BASF AG follows a two-tier system with the works council in the Ludwigshafen plant and the joint works council. Currently, the joint works council comprises 42 representatives of the

German companies within BASF Group 13 companies delegate two representatives each and 16 companies delegate one representative each to this body.

On the European level, the employee representative bodies of the group companies are organized within the BASF Euro Dialog.

III. Principal Aspects of the Conversion

1. Principal Reasons for the Conversion

The legal form of the European Company (*Societas Europaea*, SE) is the visible expression of a Europe put into practice at the entrepreneurial level. As the leading global chemical company, BASF expressly endorses its home market Europe, which is the basis of its global activities. The conversion of BASF AG into an SE, which currently is the only available supranational legal form, emphasizes the business activities of BASF which go beyond Germany's borders as well as the importance of the European market for BASF. With the conversion into an SE, BASF promotes and supports the European idea and makes a contribution to the continuing European integration.

Europe is the home market of BASF: In 2006, 56.1 % of sales were generated in Europe. In Europe (EU, EEA) BASF Group employs approx. 66,000 of its global workforce of 95,000 employees. The conversion into an SE enables the European employees to become more involved in the participation of employees in the company. Whereas pursuant to the MitbestG 1976 it is only the employees from Germany who have the active and passive voting right, in an SE the employees' side of the supervisory board also comprises – subject to an agreement to the contrary in the course of the procedure for the involvement of employees – representatives of employees from other member states of the EU or, respectively, the signatory states to the EEA. Besides, the legal form of an SE generally allows for taking into account future developments of BASF Group in Europe with regard to the involvement of the employees in the supervisory board.

The proposed conversion into an SE contributes to the future-oriented development and strengthening of the corporate governance practised at BASF AG. The restriction of the number of members of the supervisory board to twelve while maintaining its composition of shareholder representatives and employee representatives on a parity basis makes a significant contribution in this regard. Decision-making and communication processes within the supervisory board will be simplified, accelerated and thus optimized.

Presently, the supervisory board of BASF AG comprises a total of twenty members. It is composed on a parity basis with ten shareholder and ten employee representatives. The size of the supervisory board is stipulated by the MitbestG 1976, according to which the supervisory board of BASF AG has to comprise twenty members, because it has more than 20,000 employees in Germany.

The provisions of the MitbestG 1976 do not apply to the legal form of an SE. Therefore, the size of the supervisory board of an SE does not depend on the number of employees, but is determined by the body stipulating the statutes (the general meeting of shareholders of the SE) in accordance with the provisions of the SE Regulation and the SEAG. The statutes of BASF SE which are submitted to the general meeting of shareholders for approval provide for a supervisory board comprising twelve members which is composed on a parity basis with six shareholder and six employee representatives.

2. Costs of the Conversion

According to the current estimate of the board of executive directors of BASF AG, the overall costs of the conversion will amount to up to Euro 5 million.

This estimate includes, in particular, the costs for preparatory measures, the costs of the conversion audit by the court-appointed conversion auditor, the costs of the notarization of the Conversion Plan, the cost of the registrations, the costs of external advisors, the costs for the required publications, the costs for the conduction of the procedure for the involvement of employees as well as the costs of the change of the stock exchange listing of BASF AG shares to BASF SE shares. The costs for the conduction of the annual general meeting of BASF AG have not been included in the estimate, because the general meeting has to be held anyway.

IV. Comparison of the Legal Position of the Shareholders of BASF AG and BASF SE

In the following, the principal statutory provisions and stipulations in the articles of association currently applicable to BASF AG are contrasted with the provisions applicable to the future BASF SE. In this regard, particular attention will be given to the rights of the shareholders and aspects of corporate governance.

1. Introduction

The SE is a company in the form of a European public limited-liability company (cf. the statutory definition in Art. 1 para. 1 SE Regulation). It is a supranational legal form which was created by the law of the European Union, namely the SE Regulation, effective October 8, 2004. The SE Regulation is directly applicable law in all member states. This ensures the Europe-wide recognition of the SE, regardless of the place of its registered office. Subject to the provisions of the SE Regulation, the SE is treated in each member state as if it were a public limited-liability company formed in accordance with the law of the country in which the SE's registered office is situated; it may neither be treated preferentially nor discriminated against (cf. Art. 10 SE Regulation). As is the case with the public limited-liability company under national law, it has legal personality (cf. Art. 1 para. 3 SE Regulation); its subscribed capital is divided into shares and its liability to its creditors is restricted to its corporate assets (cf. Art. 1 para. 2 SE Regulation).

The SE Regulation as a regulation under Community law, and thus as directly applicable European law, prevails over the provisions of national law. However, the small scope of the provisions of the SE Regulation necessitates an extensive subsidiary application of national law provisions. In this regard, the SE Regulation uses as techniques for the determination of the applicable law both the so-called method of comprehensive reference (*Gesamtverweisung*) and the so-called method of transmission (*Sachnormverweisung*). In the case of a comprehensive reference, it has to be analysed in accordance with the provisions of Private International Law which national material provisions of law apply. In the case of transmission, however, in contrast to the method of comprehensive reference, direct reference is being made to the material law of a certain country; with regard to BASF SE this, too, means the applicable provisions of German law, in particular stock corporation law.

BASF SE will be established in Germany and will have its head administrative office there. Thus, as a general rule, both the comprehensive reference and the transmission method lead to the applicability of German law. As a consequence, reference conflicts between the

jurisdictions of different countries within the EU or the EEA, respectively, are thus prevented.

As a result, the rights of the shareholders as well as the corporate governance of BASF SE as an SE with its registered office in Germany are governed by the stipulations of the SE Regulation, the statutes of BASF SE, the provisions of the SEAG and the SEBG as well as the provisions of law applicable to a German stock corporation, particularly those of the Stock Corporation Act (see, for example, Art. 9 para. 1 lit. c)(ii) SE Regulation).

2. General Provisions

a) Subscribed Capital / Features of the Shares

As is the case with a stock corporation, the subscribed capital of an SE is made out in Euro (Art. 4 para. 1 SE Regulation). Whereas in the case of a stock corporation the minimum nominal amount of the subscribed capital is Euro 50,000 (Section 7 AktG), the subscribed capital of an SE may not be less than Euro 120,000 (Art. 4 para. 2 SE Regulation). The subscribed capital of BASF SE will be exactly the same amount as the subscribed capital of BASF AG at the point in time of the conversion (Sections 3.3 and 3.4 of the Conversion Plan). The subscribed capital of BASF AG currently amounts to Euro 1,282,790,400 and thus exceeds by far the minimum capital of Euro 120,000.

As is the case with the shares of a stock corporation, the shares of an SE can have different features. Pursuant to the transmission provision in Art. 5 SE Regulation, the national provisions of stock corporation law apply in this regard. Accordingly, the shares of an SE can be either par value shares with minimum nominal amounts or no-par value shares with a proportionate amount of the subscribed capital as the minimum amount. Besides, the shares of the SE may also be made out to the bearer or may be registered shares; in the case of registered shares, as is the case with a stock corporation, the shares may be subjected to a transfer restriction (*Vinkulierung*). The issuance of shares of different classes, particularly the issuance of preference shares, is permissible.

With regard to the features of the shares of BASF AG no changes occur as a consequence of the conversion into an SE. As is currently the case at BASF AG, the subscribed capital of BASF SE will be divided into no-par value shares made out to the bearer (cf. Art. 5 nos. 3 and 4 of the statutes of BASF SE as well as chapter VI.2.e) of this report).

b) Registered Office

The registered office of a stock corporation is stipulated in the articles of association (Section 5 para. 1 AktG). This also applies to an SE (Art. 7 SE Regulation in connection with Section 2 SEAG), with the proviso that the registered office of an SE has to be within the European Community, in the same member state as its head office (Art. 7 sentence 1 SE Regulation). For an SE with its registered office in Germany, Section 2 SEAG further stipulates that the registered office has to be at the place of the head office.

Therefore, as a consequence of the mandatory requirement of a stipulation in the articles of association or the statutes, respectively, the registered office of a stock corporation as well as of an SE may only be changed by an alteration of the articles of association or the statutes (cf. with regard to the stock corporation Sections 179 et seqq., 45 AktG; with regard to the SE Art. 8 SE Regulation in connection with Art. 9 para. 1 lit. c)(ii) SE Regulation in connection with Sections 179 et seqq. AktG). For a stock corporation, a resolution of the general meeting of shareholders for the transfer of the registered office to another country constitutes a dissolution resolution as defined in Section 262 para. 1 no. 2 AktG (dissolution). In contrast, an SE may transfer its registered office across borders within the EU without dissolution. In the case of a transfer of the registered office of an SE which has its registered office in Germany to another country, Section 12 SEAG requires that an adequate cash compensation is offered to the shareholders. This provision is modelled after Section 29 and Section 207, respectively, of the German Transformation Act (*Umwandlungsgesetz* – "**UmwG**") which contain similar provisions for the change of the legal form in accordance with the provisions of the UmwG.

c) Notification Requirements

As is the case with BASF AG as a listed stock corporation, with regard to notification requirements in respect of voting rights held the provisions in Sections 21 et seqq. of the German Securities Trading Act (*Wertpapierhandelsgesetz* – "**WpHG**") also apply to future BASF SE as a listed SE, by virtue of the comprehensive reference provision in Art. 9 para. 1 lit. c)(ii) SE Regulation. As a consequence, shareholders rights may also be suspended in the case of an SE if notification obligations pursuant to Section 28 WpHG are not complied with.

3. Formation of the Company

The provisions governing the formation of a stock corporation, regarding the stipulation of the articles of association, special advantages, formation expenditure, parties to the formation, establishing of the company, appointment of the supervisory board members, the

members of the board of executive directors and the auditor, formation report, formation audit, filing of the company with the commercial register, examination by the court and registration in the commercial register are laid down in Sections 23 et seqq. AktG. With regard to a change of the legal form, in addition Sections 190 et seqq. UmwG apply.

Since, generally, the formation of an SE is governed by the law of the state in which the SE establishes its registered office (Art. 15 SE Regulation) and an SE, upon its formation, is to be regarded as a public limited-liability company (Art. 3 SE Regulation), the formation provisions applicable to German stock corporations also apply, in principle, to the formation of BASF SE. In the case of a conversion into an SE, the party conducting the conversion is the company which is changing its legal form, i.e. presently BASF AG.

Specifically, by virtue of the transmission provision in Art. 5 SE Regulation, the strict rules of stock corporation law regarding capital contribution also apply to the SE. However, for the purposes of a conversion into an SE, these provisions are modified or replaced, respectively, by Art. 37 SE Regulation. With regard to the details of the conversion of BASF AG into BASF SE, in particular with regard to the details of the formation, see the statements in chapter V. of this report.

4. Legal Relations of the Company and the Shareholders

The fundamental principle of German stock corporation law is the so-called principle of equal treatment in stock corporations. This principle is laid down in Section 53a AktG and requires that all shareholders of a company be afforded equal treatment, provided that identical circumstances apply. By virtue of the comprehensive reference provision in Art. 9 para. 1 lit. c)(ii) SE Regulation, this principle applies, without restriction, also to the SE.

Pursuant to Art. 5 SE Regulation, the capital maintenance provisions of the Stock Corporation Act also apply to the SE (in particular, the prohibition of subscribing to treasury shares according to Section 56 AktG and the prohibition of a repayment of contributions according to Section 57 AktG). In addition, the provisions under stock corporation law governing the utilization of the net income and the setting aside of reserves (Section 58 para. 1 to 3 AktG) as well as the distribution of profits (Section 58 para. 4 AktG) also apply to the SE. Partial payments on account of the balance sheet profits are only permissible – as is the case with a stock corporation – subject to strict requirements (Art. 5 SE Regulation in connection with Section 59 AktG). The distribution of profits generally has to be made in accordance with the shares held by the shareholders, whereas the statutes of the SE – as is the case with a stock corporation – may stipulate a different method of profit distribution (Art. 5

SE Regulation in connection with Section 60 paras. 1 and 3 AktG). In accordance with the principle of capital maintenance, in the SE, too – as is the case with stock corporations – the acquisition of treasury shares is only permissible subject to certain restricting requirements (cf. Art. 5 SE Regulation in connection with Sections 71, 71a, 71b, 71c and 71d AktG).

5. Constitution of the Company: Two-tier System – One-tier System

With regard to the constitution of the company, mandatory law requires the so-called two-tier system, consisting of a board of executive directors as the managing body (Sections 76 et seqq. AktG) and a supervisory board as a supervisory body (Sections 95 et seqq. AktG). In contrast, pursuant to the SE Regulation and the SEAG, the one-tier system with only a single administrative organ (cf. Art. 43 et seqq. SE Regulation in connection with Sections 20 et seqq. SEAG) is also permissible in addition to the two-tier system (Art. 39 et seqq. SE Regulation in connection with Sections 15 et seqq. SEAG).

However, as is already currently the case with BASF AG, the statutes of BASF SE provide for a two-tier system with a board of executive directors and a supervisory board (cf. Art. 6 of the statutes of BASF SE as well as chapter VI.2.f) of this report). Therefore, the conversion of BASF AG into an SE will not cause any changes in this regard. However, as a consequence of the change of the legal form, there are certain changes regarding the provisions governing the board of executive directors and the supervisory board, because in some respects the SE Regulation and the SEAG contain stipulations which deviate from those of German stock corporation law.

In more detail:

a) Board of Executive Directors

(aa) Management of the Company

As is the case with BASF AG, the board of executive directors of BASF SE conducts the business of the SE in its own responsibility (cf. with regard to the stock corporation Section 76 para. 1 AktG, with regard to the SE Art. 39 para. 1 sentence 1 SE Regulation). In this regard, there will be no changes concerning the management of future BASF SE.

(bb) Size and Composition of the Board of Executive Directors

In a German stock corporation, the board of executive directors generally comprises one or more persons (§ 76 para. 2 sentence 1 AktG), whereas in a company with a subscribed capital

of more than Euro 3 million the board of executive directors – provided that nothing to the contrary is stipulated in the articles of association – comprises at least two persons (Section 76 para. 2 sentence 2 AktG) In a company subject to co-determination pursuant to the MitbestG 1976 – such as BASF AG – a labour relation director (*Arbeitsdirektor*) has to be appointed to the board of executive directors as an "equal member" (Section 33 MitbestG 1976). Accordingly, in a company subject to co-determination pursuant to the MitbestG 1976 – such as BASF AG – it is mandatory that the board of executive directors comprises at least two members.

In an SE with a subscribed capital of more than Euro 3 million the board of executive directors also comprises at least two persons, unless the statutes stipulate otherwise (Section 16 SEAG).

Accordingly, the statutes of BASF SE provide that – as is the case with BASF AG – the board of executive directors has to comprise at least two persons (cf. Art. 7 No. 1 of the statutes of BASF SE as well as Art. 5 No. 1 of the articles of association of BASF AG). In addition, since the MitbestG 1976 is not applicable, there is no appointment of a member of the board of executive directors with the special responsibility as labour relation director. However, in case the subsidiary regulation by operation of law with regard to the involvement of employees in the SE applies, it is stipulated that one member of the board of executive directors has to be responsible for "labour and social affairs" (cf. Section 16 sentence 2 SEAG in connection with Section 38 para. 2 sentence 2 SEBG). It is also possible to establish such special responsibility by virtue of an agreement in the course of the procedure for the involvement of the employees.

(cc) Executive Management

As is the case with a German stock corporation, subject to stipulations to the contrary in the statutes and the rules of procedure, the principle of joint management also applies to the SE. In addition, for both types of companies the principle applies which is applicable under stock corporation law according to which differences of opinion in the board of executive directors cannot be decided by one or several members of the board of executive directors against the majority of the members of the board of executive directors (Art. 9 para. 1 lit. c)(ii) SE Regulation in connection with Section 77 para. 1 sentence 2 AktG). However, in contrast to a stock corporation which is subject to co-determination pursuant to the MitbestG 1976, in the SE it is permissible to grant to a member of the board of executive directors who has been appointed as the chairman of the board of executive directors a veto right in respect of

decisions of the board of executive directors. The exercising of the veto right has the consequence that the resolution of the board of executive directors is deemed to not have been passed. The statutes of BASF SE do not provide for such veto right of the chairman of the board of executive directors.

(dd) Representation of the Company

A German stock corporation is represented in and out of court by the board of executive directors, with the proviso that – subject to stipulations to the contrary in the articles of association – all members of the board of executive directors are only jointly authorized to represent the company (Section 78 paras. 1 and 2 AktG). In addition, the articles of association may stipulate that individual members of the board of executive directors are authorized to solely represent the company or together with a *Prokurist* (i.e. an executive holding a general power of attorney) (Section 78 para. 3 AktG).

Neither the SE Regulation nor the SEAG contain specific provisions regarding the representation of the company. Instead, by virtue of the comprehensive reference provision in Art. 9 para. 1 lit. c)(ii) and (iii) SE Regulation the provisions of the Stock Corporation Act and such stipulations in the statutes as are permissible thereunder apply. The statutes of BASF SE (cf. therein Art. 9 No. 1 as well as chapter VI.2.i) of this report) stipulate that the Company is represented by two members of the board of executive directors or by one member of the board of executive directors together with a *Prokurist*. Since identical provisions already apply pursuant to the articles of association of BASF AG (cf. therein Art. 6 No 1), no changes result from the conversion of BASF AG into an SE in this regard.

(ee) Appointment and Dismissal of the Board of Executive Directors / Term of Office

The members of the board of executive directors of a German stock corporation are appointed by the supervisory board for a maximum term of five years; reappointments or a prolongation of the term of office are permissible, in each case, for a maximum of five years (cf. Section 84 para. 1 AktG). The appointment of a member of the board of executive directors may be revoked by the supervisory board for good cause (cf. Section 84 para. 3 AktG).

In a stock corporation subject to co-determination pursuant to the MitbestG 1976, the appointment and dismissal of the members of the board of executive directors require a majority of at least two thirds of the votes of the supervisory board. If no such majority is obtained, the procedure stipulated in Section 31 paras. 3 and 5 MitbestG 1976 applies. Under this procedure, the mediation committee established pursuant to Section 27 para. 3 MitbestG

1976 has to submit a proposal for the appointment within one month with regard to which a resolution is to be passed requiring a simple majority. If again no majority is obtained for this resolution, the chairman of the supervisory board has two votes in a new ballot.

Pursuant to Art. 46 para. 1 SE Regulation, the members of the board of executive directors of an SE are also appointed by the supervisory board. The appointment is made for a term of office stipulated in the statutes which may not exceed six years. Subject to any stipulations to the contrary in the statutes, reappointments are permissible (Art. 46 para. 2 SE Regulation). The statutes of BASF SE provide for an appointment of the members of the board of executive directors for a maximum term of five years. Reappointments are permissible (Art. 7 No. 2 of the statutes of BASF SE as well as chapter VI.2.g) of this report). The MitbestG 1976 does not apply. The members of the board of executive directors of an SE are appointed by the supervisory board by means of a resolution requiring a simple majority; in the event of a tie the chairman of the supervisory board has a casting vote (Art. 50 para. 2 sentence 1 SE Regulation). Where the supervisory board is composed on a parity basis, the casting vote of the chairman is mandatory (cf. Art. 50 para. 2 sentence 1 SE Regulation).

With regard to the dismissal of members of the board of executive directors, neither the SE Regulation nor the SEAG contain any stipulations; however, by virtue of the comprehensive reference provision in Art. 9 para. 1 lit. c)(ii) SE Regulation the national provisions applicable to public limited-liability companies (Section 84 para. 3 AktG) apply, with the proviso that in the event of a tie the chairman has a casting vote (cf. Art. 50 para. 2 sentence 2 SE Regulation).

(ff) Principles for the Remuneration of the Members of the Board of Executive Directors, Prohibition of Competition, Granting of Loans to Members of the Board of Executive Directors

With regard to the remuneration of the members of the board of executive directors, the prohibition of competition and the granting of loans to members of the board of executive directors, the conversion of BASF AG into an SE does not lead to any changes. By virtue of the comprehensive reference provision in Art. 9 para. 1 lit. c)(ii) SE Regulation, the principles applicable to BASF AG in this regard (Sections 87 to 89 AktG) also apply to BASF SE.

(gg) Reports to the Supervisory Board

The reporting obligations of the board of executive directors of an SE vis-à-vis the supervisory board of an SE are modelled after the reporting obligations of the board of executive directors of a stock corporation vis-à-vis the supervisory board of a stock corporation.

Pursuant to Section 90 para. 1 AktG, the board of executive directors of a German stock corporation has to report to the supervisory board with regard to (1) the intended business policy and other fundamental issues of business planning (in particular, financial, investment and personnel planning), with the proviso that deviations of the actual development from objectives reported earlier have to be explained and the reasons specified, (2) the profitability of the company, in particular the profitability of the shareholders' equity, (3) the course of business (particularly sales) and the situation of the company, (4) transactions which may be of significant importance for the profitability or liquidity of the company. If the company is a parent company, the report also has to include subsidiaries and joint ventures (Section 90 para. 1 sentence 2 AktG). In addition, reports have to be given to the chairman of the supervisory board in the case of other important matters. It is also to be regarded as an important matter if a business matter relating to an affiliated company becomes known to the board of executive directors which could have a significant effect on the situation of the company (Section 90 para. 1 sentence 3 AktG). The Stock Corporation Act requires that reports are being given on a regular basis.

In addition to the reporting obligations described above, the supervisory board may, at any time, request a report about matters relating to the company, about its business relationships with affiliated companies as well as business matters relating to such companies which could have a significant effect on the situation of the company (Section 90 para. 3 sentence 1 AktG). An individual member may also request a report, but only to be addressed to the supervisory board.

The reports have to be prepared in accordance with the principles of conscientious and faithful accounting. They are to be made as soon as possible and, generally, in text form (Section 90 para. 4 AktG).

Every supervisory board member is entitled to take notice of the content of the reports (Section 90 para. 5 sentence 1 AktG).

The board of executive directors of an SE has similar reporting obligations which it has to fulfil on a regular basis. Accordingly, it has to report to the supervisory board of the SE at least every three months on the progress of the SE's business and its foreseeable development (Art. 41 para. 1 SE Regulation). In addition to the regular reports, the board of executive directors has to pass to the supervisory board any information on events likely to have an appreciable effect on the SE (Art. 41 para. 2 SE Regulation). Pursuant to Art. 41 para. 3 SE Regulation, the supervisory board of an SE may require from the board of executive directors information of any kind which is needed for exercising supervision by the supervisory board. As is the case with stock corporations, any member of the supervisory board may only require such information to be addressed to the supervisory board (Art. 41 para. 3 SE Regulation in connection with Section 18 SEAG). The supervisory board may undertake or arrange for any investigations necessary for the performance of its duties (Art. 41 para. 4 SE Regulation). Each member of the supervisory board is entitled to examine all information submitted to the board (Art. 41 para. 5 SE Regulation).

Even if Section 90 AktG appears to contain more detailed stipulations than Art. 41 SE Regulation, there are, in effect, no substantial changes resulting from the conversion of BASF AG into an SE with regard to the reporting obligations of the board of executive directors vis-à-vis the supervisory board. The reporting obligations of the future board of executive directors of BASF SE vis-à-vis the supervisory board of BASF SE will have at least the same extent as those of the board of executive directors of BASF AG vis-à-vis the supervisory board of BASF AG.

(hh) Obligations of the Board of Executive Directors in the Case of Loss, Overindebtedness or Illiquidity

As is the case with a stock corporation, the board of executive directors of an SE is under an obligation to convene a general meeting of shareholders in the case of a loss of half of the subscribed capital, and to apply for the institution of insolvency proceedings in the case of illiquidity or overindebtedness (Section 92 AktG in connection with Art. 9 para. 1 lit. c)(ii) SE Regulation).

(ii) Duty of Care and Liability

Pursuant to Art. 51 SE Regulation, the liability of the members of the board of executive directors of an SE is governed by the provisions applicable to public limited-liability companies in the country in which the SE's registered office is situated. According to these provisions, they are responsible for the loss sustained by the SE following any breach on their

part of the legal, statutory or other obligations inherent in their duties. Therefore, the standard of a prudent and conscientious manager (Section 93 para. 1 sentence 1 AktG) as well as the so-called business judgment rule (Section 93 para. 1 sentence 2 AktG) with regard to the liability of the board of executive directors (Section 93 para. 2 AktG) also apply to the board of executive directors of an SE. In addition, the SE Regulation expressly provides – as is the case under German stock corporation law (cf. Art. 49 SE Regulation in connection with Section 93 AktG) – that the members of the board of executive directors are under a duty, even after they have ceased to hold office, not to divulge any information which they have concerning the SE the disclosure of which might be prejudicial to the company's interests, except where such disclosure is required or permitted under national law provisions applicable to public limited-liability companies or is in the public interest (Art. 49 SE Regulation).

As is the case with a German stock corporation, the board of executive directors of an SE may only refuse to answer a question in the general meeting of shareholders if one of the rights to withhold information pursuant to Section 131 para. 3 sentence 1 AktG applies (with regard to the shareholders' right to information cf. chapter c)(ff) of this report).

In this regard, the conversion of BASF AG into an SE does not lead to any changes concerning the responsibility of the board of executive directors.

(jj) Utilization of Influence on the Company – Liability for Damages

By virtue of Art. 51 SE Regulation, the prohibition to cause members of the company management or executive employees to engage in a conduct detrimental to the stock corporation or its shareholders (Section 117 AktG) also applies to an SE.

b) Supervisory Board

(aa) Size and Composition of the Supervisory Board

With regard to a company subject to co-determination pursuant to the MitbestG 1976, the size of the supervisory board depends on the number of domestic employees (cf. Section 95 sentence 5 AktG in connection with Section 7 MitbestG 1976). According to these provisions, the supervisory board of a company which usually employs more than 20,000 domestic employees – as is the case with BASF AG – comprises ten supervisory board members each from the shareholders' and the employees' side.

The provisions of the Co-Determination Act 1976 do not apply to the SE. Rather, in the SE, the number of members of the supervisory board or, respectively, the stipulation according to which such number is to be determined is laid down in the statutes of the company and is thus made by the corporate body stipulating the statutes (i.e. the general meeting) (Art. 40 para. 3 SE Regulation). Pursuant to Art. 40 para. 3 sentence 2 SE Regulation in connection with Section 17 para. 1 SEAG, the number of members has to be divisible by three and the supervisory board has to be composed of at least three and not more than 21 members. The number of members who are employee representatives is determined in an agreement on the involvement of employees (Section 21 para. 3 no. 1 SEBG) or – in case no agreement can be reached – by the so-called subsidiary regulation of employee involvement by operation of law (cf. Sections 22 et seqq. SEBG as well as chapter VI.1.f)(hh) of this report). In the case of a conversion of a company into an SE, it has to be observed that in respect of all components of employee involvement at least the same extent of involvement has to be granted that existed at the company which is to be converted into an SE. However, this only refers to the quality of employee involvement, i.e. for example composition on a parity basis, but not to the absolute number of members on the supervisory board, as the stipulation of this number is made by the corporate body stipulating the statutes, the general meeting. Accordingly, the supervisory board of BASF SE has to be composed on a parity basis, as is currently the case with the supervisory board of BASF AG. Besides, the number of its members has to be divisible by three (cf. Section 17 para. 1 SEAG). The choice of the legal form of an SE therefore allows for a stipulation of the number of members of the supervisory board to be twelve.

The statutes of BASF SE provide for a supervisory board comprising twelve members, which is composed on a parity basis of employee representatives and shareholder representatives (cf. Art. 10 No. 1 of the statutes of BASF SE as well as chapter VI.2.j) of this report).

As was described above, probably not only the domestic employees, but also employees from other member states of the EU and signatory states to the EEA will be represented on the supervisory board of BASF SE; it is expected that – in reflection of the subsidiary regulation by operation of law – five representatives from Germany and one representative from Belgium will be appointed by the employees (cf. also chapter VI.1.f)(hh) of this report).

(bb) Status Proceedings Regarding the Composition of the Supervisory Board

By virtue of the comprehensive reference provision in Art. 9 para. 1 lit. c)(ii) SE Regulation, the provisions of the Stock Corporation Act regarding the so-called status proceedings, which

apply in cases where it is in dispute or uncertain whether the supervisory board is composed in accordance with applicable statutory provisions (Sections 97, 98, 99 AktG), also apply to a German SE. In addition, the provision in Section 17 para. 3 SEAG applies which stipulates that the SE works council, too, is entitled to initiate the status proceedings in court.

(cc) Personal Requirements for Supervisory Board Members

As is the case with a German stock corporation, by virtue of the transmission provision in Art. 47 para. 1 SE Regulation only natural persons of full legal capacity are eligible to be members of the supervisory board of an SE the registered office of which is situated in Germany (Section 100 para. 1 AktG). Besides, no person can be a member of the corporate body who pursuant to the law of the member state where the SE's registered office is situated is disqualified from serving on a management, supervisory or administrative body of a public limited-liability company governed by the law of such member state or who, owing to a judicial or administrative decision delivered in a member state, is disqualified from serving on a management, supervisory or administrative body of a public limited-liability company governed by the law of a member state (Art. 47 para. 2 SE Regulation). By making reference to Section 100 para. 2 AktG, congruity is achieved with the provision under stock corporation law concerning the personal requirements for members on the supervisory board with regard to obstacles (generally, not more than ten memberships in corporate bodies, statutory representative of a controlled enterprise, no cross-holdings of membership positions, cf. Section 100 para. 2 AktG).

(dd) Appointment of the Supervisory Board

The members of the supervisory board of a stock corporation are elected by the general meeting of shareholders, provided that no deviating provisions apply pursuant to co-determination law (Section 100 para. 1 AktG). Pursuant to these provisions, at the employee representatives on the supervisory board of BASF AG are appointed by the domestic employees of BASF Group and not by the general meeting of shareholders (cf. Sections 10 et seqq. MitbestG 1976).

Generally, the members of the supervisory board of an SE are appointed by the general meeting of shareholders (Art. 40 para. 2 sentence 1 SE Regulation). This applies generally to the shareholder representatives and to the employee representatives in cases where an agreement concluded in accordance with the SEBG does not provide for a different appointment procedure or where the subsidiary regulation by operation of law for the involvement of employees in the SE applies (cf. Section 36 para. 4 SEBG).

The proposals submitted to the general meeting for the appointment of the shareholder representatives are made by the supervisory board. These proposals are not binding on the general meeting. Therefore, with regard to the appointment of the shareholder representatives on the supervisory board the conversion into BASF SE does not lead to any changes compared to the procedure currently applicable.

The employee representatives to be proposed to the general meeting for appointment are determined in accordance with the procedures stipulated in the agreement on employee involvement. Under the subsidiary regulation by operation of law for the involvement of employees in the SE, the employee representatives are determined in accordance with the respective applicable national laws, taking into account the geographical distribution of the employees within the EU and the EEA. The proposals are binding on the general meeting of shareholders (cf. Section 36 para. 4 SEBG, Art. 10 No. 1 of the statutes of BASF SE as well as chapter VI.2.j) of this report).

As a result, in contrast to the procedure currently applicable to BASF AG, the employee representatives on the supervisory board of BASF SE will no longer be determined by the employees of BASF Group in Germany, but in accordance with the procedure agreed on in the course of the employee involvement procedure or, respectively, the procedures stipulated by the subsidiary regulation the operation of law.

(ee) Term of Office

The members of the supervisory board of a stock corporation can be appointed for a maximum term ending with the conclusion of the general meeting resolving on the formal discharge of the supervisory board for the fourth financial year after the term of office commenced (with the financial year in which the term of office commences not being counted (Section 102 para. 1 AktG)). In contrast, the members of the supervisory board of an SE are appointed for a term stipulated in the statutes which may not exceed six years (cf. Art. 46 para. 1 SE Regulation). Thus, in the case of an SE, longer terms of office are generally permissible.

The articles of association of BASF AG stipulate that – in accordance with the applicable provisions under stock corporation law – the election is made for a term until the conclusion of the general meeting resolving on the formal discharge of the supervisory board for the fourth financial year after the term of office commenced, with the financial year in which the term of office commences not being counted (Art. 8 No. 2 of the articles of association of BASF AG). The statutes of BASF SE provide for an appointment of the supervisory board

members – subject to special provisions applicable to the appointment of the members of the first supervisory board of BASF SE – for a term until the conclusion of the general meeting resolving on the ratification of actions for the fourth financial year after the term of office commenced, not including the financial year in which the term of office commences, however, for no longer than for a period of six years. The members of the first supervisory board are appointed with a term of office ending upon the conclusion of the general meeting resolving on a formal discharge of the supervisory board for the financial year ending on December 31, 2008 (Art. 10 No. 2 of the statutes of BASF SE). As is already the case for BASF AG (cf. Art. 8 No. 4 of the articles of association of BASF AG), – reappointments are permissible (cf. Art. 10 No. 3 of the statutes of BASF SE as well as chapter VI.2.j) of this report). Thus, the provision in the statutes follows the maximum duration of the term as stipulated in the AktG. Therefore, the conversion of BASF AG into an SE does not lead to any changes.

(ff) Dismissal

In general, and subject to any stipulations to the contrary within the articles of association, shareholder representatives on the supervisory board of a stock corporation may be dismissed by the general meeting with a majority of at least three quarters of the votes cast (Section 103 para. 1 AktG).

Pursuant to Section 23 MitbestG 1976, employee representatives on the supervisory board of a stock corporation which is governed by the MitbestG 1976 – such as BASF AG – may only be dismissed upon request of the employees. An exception in this regard only applies in the cases of a dismissal by a court. Besides, upon request of the supervisory board a supervisory board member (irrespective of such member being a shareholder or an employee representative) is to be dismissed if there is good cause (Section 103 para. 3 sentence 1 AktG). The supervisory board decides on making such request with a simple majority.

Neither the SE Regulation nor the SEAG contain specific provisions regarding the dismissal of the members of the supervisory board of an SE. Rather, by virtue of the comprehensive reference provision in Art. 9 para. 1 lit. c)(ii) SE Regulation, in principle, the provisions of the Stock Corporation Act apply. However, with regard to the dismissal of employee representatives, the MitbestG 1976 is no longer applicable; instead – subject to an agreement to the contrary concluded in the course of the employee involvement procedure – the following provisions of the SEBG apply: Domestic employee representatives on the supervisory board of an SE may be dismissed upon a proposal of the employees (cf.

Section 37 para. 1 SEBG). The general meeting is bound to this proposal (Section 37 para. 1 SEBG at the end). However, the dismissal of a supervisory board member appointed by the employees from another member state is not governed by the SEBG, but – subject to an agreement to the contrary concerning employee involvement in the SE – by the respective applicable national legal provisions. Besides – as is the case with a stock corporation – employee representatives on the supervisory board of an SE may still be dismissed by a court as before, provided that the respective requirements under statutory law are met.

In principle, the conversion of BASF AG into an SE does not lead to any changes with regard to the dismissal of supervisory board members. The dismissal of supervisory board members is still generally governed by the AktG. In addition – as a consequence of the inapplicability of the MitbestG 1976 – and to the extent that no stipulation to the contrary is provided for in an agreement regarding the involvement of employees, a possibility for the dismissal of domestic employee representatives has at least been provided for in the course of the subsidiary regulation by operation of law in the SEBG. In this regard, the SEBG follows the system of the MitbestG 1976.

(gg) Appointment by a Court

Whether a supervisory board member may be appointed by a competent court is determined in the SE Regulation by means of the comprehensive reference provision in Art. 9 para. 1 lit. c)(ii) SE Regulation, with a consequence that the provisions of the Stock Corporation Act also apply to the SE. In accordance with these provisions, upon a respective motion the court has to supplement the supervisory board to meet the number of members required to constitute a quorum (Section 104 para. 1 sentence 1 AktG), if the supervisory board comprises less than this number of members. In urgent cases, the court has to supplement the supervisory board, upon a respective motion, even if the board still constitutes a quorum and prior to the expiry of the three months period regularly required for supplementing the board because of an insufficiency of members (cf. Section 104 para. 2 AktG). In the case of a stock corporation, such an urgent case is always deemed to exist if a supervisory board which is subject to co-determination pursuant to the MitbestG 1976 does not comprise all the members of which it has to comprise pursuant to applicable statutory provisions or the statutes, i.e. if there is no composition on a parity basis (Section 104 para. 3 AktG).

The same can also be expected to apply – despite the inapplicability of the MitbestG 1976 – in the case of an SE supervisory board composed on a parity basis, with the consequence that prior to the expiry of the three months period an appointment by the court is also possible in

cases where the supervisory board still constitutes a quorum, but is not complete. With regard to the SE, the supplementary provision in Section 17 para. 3 SEAG applies which stipulates that the SE works council, too, is entitled to initiate proceedings for the appointment by the court.

Therefore, the conversion of BASF AG into an SE generally does not lead to any changes.

(hh) Incompatibility of Simultaneous Membership on the Board of Executive Directors and the Supervisory Board

As is the case with a stock corporation, in the SE, too, no person may, at the same time, be a member of the board of executive directors and the supervisory board. However, the supervisory board of the SE may – as is also the case with a stock corporation – delegate one of its members to assume the responsibilities of a member of the board of executive directors for a limited period of time which may not exceed one year. During this time, the office of the respective person as a member of the supervisory board is suspended. A repeated appointment or the prolongation of the term of office as a member of the board of executive directors are permissible, provided that the total term of office does not exceed one year (cf. Art. 39 para. 3 SE Regulation in connection with Section 15 SEAG for the SE and Section 105 para. 1 and para. 2 AktG for the stock corporation). Save for this exception, no person can be a member of a corporate body of an SE who pursuant to the law of the member state where the SE's registered office is situated is disqualified from serving on a management or supervisory body of a public limited-liability company governed by the law of such member state (Art. 47 para. 2 lit. a) SE Regulation).

Therefore, no changes occur in this regard as a consequence of the conversion of BASF AG into an SE.

(ii) Internal Organization – Chairman/Deputy Chairman of the Supervisory Board

The chairman of the supervisory board of a company subject to co-determination pursuant to the MitbestG 1976 – such as BASF AG – is elected by the shareholder representatives on the supervisory board, unless a chairman has already been elected in a first ballot with a two thirds majority. The same applies accordingly with regard to the deputy chairman, with the proviso that according to Section 27 para. 2 MitbestG 1976 the latter is to be elected by the employee representatives on the supervisory board.

In the SE, the election of the chairman and the deputy chairman of the supervisory board is made by the supervisory board, with the majority of the votes of the members present or represented being required. However, in the case of a supervisory board composed on a parity basis – such as BASF SE – it is mandatory for the chairman of the supervisory board to be a shareholder representative (Art. 42 sentence 2 SE Regulation). In order to ensure that this principle is adhered to for the election of the chairman in the constituent meeting of the supervisory board, it is stipulated in Art. 11 No. 1 of the statutes of BASF SE that during the election of the chairman of the supervisory board the oldest member in terms of age of the shareholder representatives acts as the chairman.

(jj) Internal Organization / Passing of Resolutions in the Supervisory Board

The supervisory board of a stock corporation subject to co-determination – such as BASF AG – constitutes a quorum if at least half of the total number of members which it is required to have participates in the passing of a resolution (Section 28 MitbestG 1976). The supervisory board of an SE constitutes a quorum – subject to a stipulation to the contrary in the statutes or the SE Regulation – if at least half of its members are present or represented (Art. 50 para. 1 lit. a) SE Regulation). Accordingly, the statutes of BASF SE provide that the supervisory board constitutes a quorum only if, after all members have been invited, at least one half of the total number of members which it is required to have participates in the passing of a resolution (Art. 12 No. 2 of the statutes of BASF SE).

Generally, the adoption of resolutions by the supervisory board of BASF AG requires a majority of the votes cast (Section 29 para. 1 MitbestG 1976). In the case of a tie, the chairman has a casting vote in a new ballot. No such right is granted to the deputy chairman (Section 29 para. 2 sentence 3 MitbestG 1976). In the supervisory board of an SE, the adoption of resolutions requires a majority of the votes of the members present or represented (Art. 50 para. 1 lit. b) SE Regulation). In an SE supervisory board composed on a parity basis, it is mandatory pursuant to Art. 50 para. 2 SE Regulation – as is the case with a stock corporation – that in the event of a tie the chairman of the supervisory board has a casting vote. However, in contrast to the situation in a stock corporation governed by the MitbestG 1976, no second ballot is required, but the chairman of the supervisory board, who has to be a shareholder representative, has a casting vote already during the first ballot. The statutes of BASF SE stipulate that resolutions of the supervisory board generally require the simple majority of votes cast (Art. 12 No. 2 of the statutes of BASF SE). In addition, Art. 12 No. 2) of the statutes of BASF SE stipulates that, if the chairman of the supervisory board does not participate in the passing of a resolution, the vote of the deputy chairman is to be the

casting vote in the event of an equality of votes, provided that the latter is a shareholder representative.

(kk) Calling of Supervisory Board Meetings

Neither the SE Regulation nor the SEAG contain provisions regarding the calling of supervisory board meetings. Therefore, by virtue of the comprehensive reference provision in Art. 9 para. 1 lit. c)(ii) and (iii) SE Regulation, respectively, the provisions of the German Stock Corporation Act apply in their entirety with the consequence that there are no changes for BASF SE as compared to BASF AG. In accordance with Section 110 para. 1 AktG, each supervisory board member may request that the chairman of the supervisory board promptly call a meeting of the supervisory board, provided that such member states the purpose and reasons for the request. The meeting has to take place within two weeks after being called by the chairman of the supervisory board. In the event of non-compliance on the part of the chairman of the supervisory board, the supervisory board member or the board of executive directors may call a meeting of the supervisory board (cf. Section 110 para. 2 AktG).

In the case of listed companies, such as BASF AG and BASF SE, the supervisory board has to convene in meetings at least twice in each half of the calendar year (cf. Section 110 para. 3 AktG).

(ll) Responsibilities and Rights of the Supervisory Board

Pursuant to Section 111 para. 1 AktG, the supervisory board supervises the management of the company. The board has to convene a general meeting of shareholders if the interests of the company so require (Section 111 para. 3 sentence 1 AktG).

The same applies with regard to the SE: Here, too, the supervisory board supervises the management of the company by the board of executive directors (Art. 40 para. 1 sentence 1 SE Regulation). Pursuant to Art. 54 para. 2 SE Regulation in connection with Section 111 para. 3 sentence 1 AktG, it is also entitled to call a general meeting of shareholders if the interests of the company so require. In so far, the conversion of BASF AG into an SE does not lead to any changes.

Neither in a stock corporation, nor in an SE, are the members of the supervisory board entitled to delegate their responsibilities to other persons – including other supervisory board members (Section 111 para. 5 AktG in connection with Art. 9 para. 1 lit. c) (ii) SE Regulation).

Also, neither in a stock corporation, nor in an SE, may the management of the company be delegated to the supervisory board (Section 111 para. 4 AktG and Art. 40 para. 1 sentence 2 SE Regulation, respectively).

In a stock corporation, the articles of association or the supervisory board have to stipulate that certain categories of transactions may only be conducted with the consent of the supervisory board (cf. Section 111 para. 4 sentence 2 AktG). Accordingly, the articles of association of a stock corporation do not necessarily have to contain such catalogue (cf. Section 111 para. 4 sentence 2 AktG). In contrast, Art. 48 para. 1 sub-para. 1 SE Regulation requires that in an SE a stipulation is included in the statutes as to the categories of transactions which require consent from the supervisory board. Without a respective stipulation in the statutes, there would be an obstacle for the registration of the SE. However, this does not prevent the supervisory board from stipulating additional categories of transactions requiring consent which are not included in the statutes (cf. Art. 48 para. 1 sub-para. 2 SE Regulation in connection with Section 19 SEAG).

Like the articles of association of BASF AG (cf. Art 11 No. 1 of the articles of association of BASF AG), the statutes of BASF SE (cf. Art. 13 of the statutes of BASF SE) contain a catalogue of transactions requiring consent.

In contrast to the situation in a stock corporation (Section 111 para. 4 sentences 3 to 5 AktG), the general meeting of an SE does not have the power to substitute a refused authorization of the supervisory board by a resolution of the general meeting.

In addition, by virtue of the comprehensive reference provision in Art. 9 para. 1 lit. c)(ii) SE Regulation, the provisions of the Stock Corporation Act apply with the consequence that the conversion of BASF AG into an SE does not lead to any other changes.

(mm) Duty of Care and Confidentiality Obligations

In the exercise of its functions, the supervisory board of a German stock corporation has to apply the care of a prudent and conscientious supervisory board member (Section 116 sentence 1 in connection with Section 93 para. 1 sentence 1 AktG). In addition, the members of the supervisory board – like the members of the board of executive directors – are under a confidentiality obligation (Section 116 sentence 2 AktG). The same provisions of the German Stock Corporation Act govern the responsibility of the members of the supervisory board of an SE, since these provisions are applicable by virtue of the transmission provision in Art. 51 SE Regulation. The confidentiality obligation is governed by Art. 49 SE Regulation in

connection with Section 93 AktG. Thus, the conversion of BASF AG into an SE does not lead to any changes.

(nn) Representation of the Company vis-à-vis Members of the Board of Executive Directors

As is the case with a German stock corporation, the supervisory board of an SE also represents the company, in and out of court, vis-à-vis the members of the board of executive directors (Section 112 AktG in connection with Art. 9 para. 1 lit. c)(ii) SE Regulation).

(oo) Remuneration of Supervisory Board Members, Contracts with Supervisory Board Members, Granting of Loans to Supervisory Board Members

By virtue of the comprehensive reference provision in Art. 9 para. 1 lit. c)(ii) SE Regulation, the provisions of the Stock Corporation Act regarding the remuneration of the supervisory board members, contracts with the supervisory board members and the granting of loans to supervisory board members (Sections 113 to 115 AktG) also apply to the SE. As is presently the case in the articles of association of BASF AG, the provisions governing the remuneration of the supervisory board of BASF SE are stipulated in the statutes of BASF SE; the remuneration of the members of the supervisory board remains unchanged (cf. Art 12 of the articles of association of BASF AG and Art 14 of the statutes of BASF SE, respectively, as well as chapter VI.2.n) of this report).

As is the case with a stock corporation, with regard to the members of the first supervisory board of an SE, these remuneration provisions do not apply. Pursuant to Section 113 para. 2 AktG, they receive a remuneration which is at the discretion of the general meeting resolving upon their formal discharge. By virtue of the comprehensive reference provision in Art. 9 para. 1 lit. c)(ii) SE Regulation, this principle also applies to the SE. Accordingly, the remuneration of the first supervisory board of BASF SE has to be determined by the general meeting resolving upon the formal discharge of the members of the first supervisory board of BASF SE.

c) General Meeting of Shareholders

(aa) Rights of the General Meeting

The shareholders of a German stock corporation exercise their rights relating to the matters of the company in the general meeting of shareholders, unless statutory law provides otherwise (Section 118 para. 1 AktG). The members of the board of executive directors and the

supervisory board are supposed to take part in the general meeting (Section 118 para. 2 sentence 1 AktG). Since these provisions also apply to the SE by virtue of Art. 9 para. 1 lit. c)(ii) SE Regulation and Art. 53 SE Regulation, the conversion of BASF AG into an SE does not lead to any changes in this regard.

The general meeting of an SE whose registered office is situated in Germany decides on matters for which responsibility is given to the general meeting of a German public limited-liability company by virtue of either national legal provisions or stipulations in the statutes; these include the appointment of the members of the supervisory board, the utilization of balance sheet profits, the formal discharge of the members of the board of executive directors and the supervisory board, the appointment of the auditor, amendments of the statutes, capital measures (capital increases and capital reductions), the appointment of special auditors for the examination of events in connection with the formation or of the management of the company as well as the winding up of the company (Section 119 para. 1 AktG, Art. 52 SE Regulation).

Generally, with regard to measures of company management, the general meeting of shareholders of a German stock corporation or of an SE with its registered office in Germany can only take decisions if this is requested by the board of executive directors (Section 119 para. 2 AktG, Art. 52 SE Regulation). According to the rulings of the German Federal Court of Justice, exceptions apply with regard to structural measures which formally fall within the scope of executive competence of the board of executive directors, but which, because of their importance, affect the rights of the shareholders. Presumably, this principle also applies to an SE with its registered office in Germany (cf. Art. 52 SE Regulation) with the consequence that in this regard, too, the conversion of BASF AG into an SE does not lead to any changes.

The decision-making authority of the general meeting of shareholders of a stock corporation as well as of an SE with its registered office in Germany further includes measures under transformation law pursuant to the German Transformation Act (e.g. mergers, divisions, transfers of assets or changes of the legal form).

In addition, in an SE, pursuant to Art. 52 SE Regulation, the general meeting decides on matters for which it is given sole responsibility by the SE Regulation or by the legislation of the member state in which the SE's registered office is situated adopted in implementation of Directive 2001/86/EC (SE Employee Involvement Directive). These include, in particular, the transfer of the registered office (Art. 8 SE Regulation) as well as the reconversion into a

national public limited-liability company (Art. 66 para. 6 SE Regulation). A reconversion decision may only be taken after two years have elapsed since the registration of the SE or after the first two annual financial statements have been approved.

(bb) Formal Discharge of the Board of Executive Directors and the Supervisory Board

The general meeting of shareholders of a German stock corporation resolves, within the first eight months of each financial year, upon the formal discharge of the board of executive directors and the supervisory board. With the discharge resolution, it approves the management of the company by the members of the board of executive directors and the supervisory board (cf. Sections 119 para. 1 no. 3, 120 AktG).

By virtue of the transmission provision in Artt. 52, 53 SE Regulation, the aforementioned provisions of the Stock Corporation Act generally also apply, without restriction, to the SE. The only exception is that the time period within which the general meeting of the SE is to be held after the end of a financial year is six months (and not eight months, as is the case with a stock corporation, Art. 54 para. 1 SE Regulation).

(cc) Convening the General Meeting

In an SE, the general meeting may be convened at any time by the board of executive directors or the supervisory board in accordance with the national law applicable to public limited-liability companies in the member state where the SE's registered office is situated (Art. 54 para. 2 SE Regulation). The organization and conduct of the general meeting as well as the voting procedure are also governed, in principle, by the provisions of the German Stock Corporation Act (Art. 53 SE Regulation, with regard to applicable majority requirements for resolutions see below items hh) and ii)). However, the general meeting of an SE is held at least once each calendar year within six months of the completion of the financial year (Art. 54 para. 1 SE Regulation), whereas the general meeting of shareholders of a stock corporation has to be held within the first eight months of the financial year (cf. Section 175 para. 1 sentence 2 AktG). Since in recent years the general meeting of shareholders of BASF AG was always held in April or May, in effect the conversion of BASF AG into an SE does not lead to any changes.

(dd) Convening of the General Meeting Upon Request of a Minority / Supplementing the Agenda Upon Request of a Minority

The general meeting of a German stock corporation is to be convened if shareholders whose shares, in the aggregate, represent 5% of the subscribed capital request this in writing, provided that such minority states the purpose and reasons for the request (Section 122 para. 1 AktG). The shareholders have to prove that they have owned the shares for at least three months before the date of the general meeting and that they continue to hold the shares until the decision on the motion is made (i.e. until the authorization by a court or until the convening of the meeting by the board of executive directors) (Section 122 para. 1 sentence 3 in connection with Section 142 para. 2 sentence 2 AktG). In the same way, shareholders whose shares, in the aggregate, represent 5% of the subscribed capital or a proportionate amount of the subscribed capital of Euro 500,000 may request that certain items for the adoption of a resolution of a general meeting of shareholders be published (Section 122 para. 2 AktG). If the request is not granted, a court can authorize the shareholders who have submitted the request to convene the general meeting or to publish the item for the adoption of a resolution (Section 122 para. 3 sentence 1 AktG).

The convening of the general meeting of shareholders of an SE and the drawing-up of the agenda therefor may be requested by one or more shareholders who together hold at least 5% of the subscribed capital (Art. 55 para. 1 SE Regulation, Section 50 para. 1 SEAG). The request that a general meeting be convened has to state the items to be put on the agenda (Art. 55 para. 2 SE Regulation). Upon a respective request, a court may authorize the shareholders to convene the general meeting, if the general meeting has not been held within two months, at the latest, after the request for convening a general meeting has been made (Art. 55 para. 3 SE Regulation). In contrast to the stock corporation law provisions in Sections 122 para. 1 sentence 3, 142 para. 2 sentence 2 AktG, a minimum holding period of three months before making the request is not a condition precedent for the request in the case of an SE.

The inclusion of one or more additional items in the agenda of the general meeting of an SE may be requested by one or more shareholders who together hold at least 5% of the subscribed capital or a proportionate amount of Euro 500,000 (Art. 56 SE Regulation, Section 50 para. 2 SEAG). The procedures and time limits applicable to such requests are governed, in the case of an SE with its registered office in Germany, by the SEAG (cf. Art. 56 sentence 2 SE Regulation in connection with Section 50 SEAG).

In effect, thereby the SE Regulation and the SEAG essentially adopt the provisions of German stock corporation law with the consequence that, generally, the conversion of BASF AG into an SE does not lead to any changes.

(ee) Organization and Conduct of the General Meeting

With regard to the organization and conduct of the general meeting of an SE, the SE Regulation makes reference, by virtue of the transmission provisions in Art. 53, 54 para. 2 and the comprehensive reference provision in Art. 9 para. 1 lit. c)(ii) SE Regulation, to the provisions of the German Stock Corporation Act. In this regard, the conversion of BASF AG into an SE does not lead to any changes. Therefore, in particular, the provisions governing the limitation of the speaking right also continue to apply (cf. chapter VI.2.r)).

(ff) Right to Information, Speaking Right and Right to Put Questions of the Shareholders in the General Meeting

In order to exercise their rights, the shareholders of a stock corporation require sufficient information about the company. The primary basis for this information are the annual financial statements, including the notes thereto, and the management report of the board of executive directors (Section 175 para. 2 AktG) as well as the report of the supervisory board (Section 171 para. 2 AktG). In addition, according to Section 131 AktG, each shareholder, regardless of the extent of his interest in the company, is entitled to information in the general meeting to the extent this is necessary for the appropriate assessment of the agenda. This right to information is mandatory law and cannot be restricted by the articles of association (cf. Section 23 para. 5 AktG). It is only in specific circumstances which are listed in Section 131 para. 3 AktG that the board of executive directors may refuse to give the information. For example, such a right of the board of executive directors to withhold information exists in cases where divulging the information could lead, in the view of a reasonable businessman, to a significant disadvantage for the company.

The right to sufficient information is also granted to the shareholders of an SE. By virtue of the comprehensive reference provision in Art. 9 para. 1 lit. c)(ii) SE Regulation, the aforementioned provisions of stock corporation law also apply to the SE. Thus, the information rights of the shareholders of BASF AG are in no way affected by the conversion of BASF AG into an SE.

(gg) Rules of Procedure of the General Meeting

The general meeting of a stock corporation may lay down rules of procedure for itself concerning the preparation and conduct of the general meeting with a majority of at least three quarters of the subscribed capital represented at the casting of votes (Section 129 para. 1 sentence 1 AktG). The right of the general meeting to lay down such rules of procedure also applies to an SE (cf. Art. 53 SE Regulation in connection with Section 129 para. 1 AktG; with regard to the majority requirements for resolutions in an SE for such resolutions which require a majority of three quarters of the subscribed capital represented at the passing of the resolution see below chapter IV.5.c)(ii) of this report).

(hh) Regular Resolutions of the General Meeting (Not Involving an Amendment of the Statutes)

The adoption of resolutions of the general meeting of a German stock corporation requires the majority of the votes cast (simple majority of votes), unless a larger majority or additional requirements are stipulated by statutory law or the articles of association (Section 133 para. 1 AktG).

The resolutions of the general meeting of an SE are adopted by a majority of the votes validly cast, save where a larger majority is stipulated by the SE Regulation, by the Stock Corporation Act or other provisions of law applicable to a stock corporations with their registered office in Germany (Art. 57 SE Regulation). Thus, the principle of a simple majority of votes for resolutions of the general meeting is not affected by the conversion of BASF AG into an SE.

(ii) Resolutions of the General Meeting Involving Amendments to the Statutes

In the case of amendments to the articles of association, the general meeting of a stock corporation has to adopt a resolution which requires a majority of at least three quarters of the subscribed capital represented at the casting of votes as well as a simple majority of the votes cast (Sections 179 para. 2, 133 AktG). The articles of association may stipulate deviating majority requirements, however, with the proviso that in respect of a change of the corporate purpose only a larger majority of the subscribed capital may be stipulated (Section 179 para. 2 sentence 2 AktG). According to the articles of association of BASF AG – save where mandatory statutory law provides for a larger majority or additional requirements – the simple majority of the subscribed capital and the simple majority of votes cast is sufficient

for amendments of the articles of association (Art. 17 No. 2 of the articles of association of BASF AG).

The SE Regulation and the SEAG stipulate majorities and requirements which deviate from the AktG:

In the case of an SE, amendments of the statutes require a resolution of the general meeting adopted with a majority of at least two thirds of the votes cast, provided that the legal provisions applicable to public limited-liability companies do not stipulate or allow for larger majority requirements (Art. 59 para. 1 SE Regulation). Therefore, those amendments of the statutes which according to the AktG already require a majority of three quarters of the *subscribed capital*, also require a majority of three quarters of the *votes* (validly) cast. However, to the extent permissible under the AktG, the statutes of the SE may provide for a reduction of the required majority (cf. above chapter IV.5.c)(gg) of this report). In the event that a reduction to the simple majority of the votes cast is made in respect of resolutions of the general meeting effecting amendments of the statutes, Section 51 sentence 1 SEAG stipulates that for such resolution at least one half of the subscribed capital has to be represented. This does not apply with regard to an alteration of the corporate purpose, a resolution on the transfer of the registered office as well as in cases where a larger majority of the subscribed capital is required by mandatory statutory law (Section 51 sentence 1 SEAG).

The statutes of BASF SE do not make use of the option granted by Section 51 sentence 1 SEAG (cf. Art. 19 No. 2 of the statutes of BASF SE as well as chapter VI.2.s) of this report).

(jj) Preference Shares Carrying no Voting Rights / Separate Resolution

Neither the SE Regulation nor the SEAG contain express provisions regarding preference shares. By virtue of the comprehensive reference provision in Art. 9 para. 1 lit. c)(ii) SE Regulation and the transmission provision in Art. 5 SE Regulation, the provisions under stock corporation law regarding preference shares (in particular, Sections 139 et seqq. AktG) apply, with the consequence that in this regard there are no changes in the case of an SE.

(kk) Special Audit

By virtue of the comprehensive reference provision in Art. 9 para. 1 lit. c)(ii) SE Regulation and the transmission provision in Art. 52 SE Regulation, the stock corporation law provisions regarding special audits (Sections 142, 258 AktG) apply; in this regard, the conversion of BASF AG into an SE does not lead to any changes.

(II) Liability Claims Against Corporate Bodies / Shareholder Lawsuits

Neither the SE Regulation, nor the SEAG contain any provisions regarding the assertion of claims for damages or shareholder lawsuits. By virtue of the comprehensive reference provision in Art. 9 para. 1 lit. c)(ii) SE Regulation, the provisions of the Stock Corporation Act (Sections 147 et seqq. AktG) apply. Accordingly, the conversion of BASF AG does not lead to any changes in this regard.

6. Annual Financial Statements / Consolidated Financial Statements

Pursuant to Art. 61 SE Regulation, the preparation of the annual financial statements and the consolidated financial statements, including related management reports, as well as the auditing and publication of the financial statements are governed by the legal provisions applicable to a German stock corporation. In addition, the provisions of stock corporation law and of the German Commercial Code (*Handelsgesetzbuch*) apply by virtue of Art. 9 para. 1 lit. c)(ii) SE Regulation and Art. 52 SE Regulation, with the consequence that the conversion of BASF AG into an SE does not lead to any changes in this regard.

7. Procurement of Capital and Capital Reduction

As a general rule, with regard to capital measures the provisions of German stock corporation law also apply to the SE.

8. Alteration of the Relationship between Several Classes of Shares to the Detriment of One Class (in General)

For BASF AG as a German stock corporation, the alteration of the relationship between several classes of shares to the detriment of one class requires the consent of the affected shareholders in the form of a separate resolution adopted with a simple majority of the subscribed capital and a simple majority of the votes cast (Section 179 para. 3 sentence 2 AktG in connection with Art. 17 No. 2 of the articles of association of BASF AG).

Where an SE has two or more classes of shares, every decision by the general meeting requires a separate resolution by the class of shareholders whose specific rights are affected by the decision (Art. 60 para. 1 SE Regulation). In this regard, the same majority requirements apply as are applicable to the decision which affects the specific rights of the respective class of shares, i.e. which is detrimental to them (Art. 60 para. 2 SE Regulation).

In so far, the conversion of BASF AG into an SE does not lead to any changes, especially since presently only one class of shares exist at BASF AG.

9. Invalidity of Resolutions of the General Meeting of Shareholders and of the Approved Annual Financial Statements / Special Audit Because of an Impermissible Undervaluation

a) Invalidity of Resolutions of the General Meeting of Shareholders

The SE Regulation and the SEAG do not contain any provisions regarding the avoidance of resolutions or the examination of the legality of the content of resolutions (*materielle Beschlusskontrolle*). By virtue of the comprehensive reference provision in Art. 9 para. 1 lit. c)(ii) SE Regulation and in Art. 5 SE Regulation, the provisions of the Stock Corporation Act regarding the invalidity of resolutions of the general meeting (Sections 241 et seqq. AktG) apply.

b) Invalidity or Avoidance of the Election of Supervisory Board Members

With regard to the invalidity or avoidance of the election of supervisory board members, by virtue of the comprehensive reference provision in Art. 9 para. 1 lit. c)(ii) SE Regulation and of Art. 5 SE Regulation, the provisions of the Stock Corporation Act (Sections 250 et seqq. AktG) apply. Insofar as the election of employee representatives on the supervisory board in the SE is concerned, at least in cases where the subsidiary regulation by operation of law applies, the unlawful adoption of election proposals for the employee representatives on the supervisory board may only be asserted pursuant to the national provisions of the member states regarding appointments in respect of the seats allocated to them. Therefore, with regard to domestic employee representatives, pursuant to Section 37 SEBG the election of a supervisory board member representing employees may be challenged where substantive provisions concerning the right to vote, eligibility for election or the election procedure have been infringed and such infringement has not been remedied, unless the result of the vote could not be altered or influenced by the infringement. Such challenges may be asserted by those persons who are entitled to submit a motion for the dismissal of employee representatives from the supervisory board, by the SE works council and by the management of the SE. Any action for avoidance has to be lodged within one month following the appointment decision of the general meeting of shareholders.

c) Invalidity of the Approved Annual Financial Statements

The conversion does not lead to any changes with regard to the invalidity of the approved annual financial statements, since by virtue of the comprehensive reference provision in Art. 9 para. 1 lit. c)(ii) SE Regulation, the provisions under stock corporation law governing the invalidity of the approved annual financial statements (Sections 256, 257 AktG) apply.

d) Special Audit Because of an Impermissible Undervaluation

By virtue of the comprehensive reference provision in Art. 9 para. 1 lit. c)(ii) SE Regulation, the provisions governing the special audit because of an impermissible undervaluation (Sections 258 to 261a AktG) also apply to the SE. Therefore, the conversion does not lead to any changes in this regard, either.

10. Winding up and Declaration of Nullity in Respect of the Company

With regard to the winding up, liquidation, insolvency, cessation of payments and similar procedures, an SE is governed by the legal provisions applicable to a public limited-liability company; this includes the provisions relating to the adoption of resolutions by the general meeting (Art. 63 SE Regulation) with the consequence that the conversion of BASF AG into an SE does not lead to any changes.

However, in contrast to a stock corporation, a resolution to transfer the registered office to another member state does not constitute a winding-up resolution in the case of an SE, since the transfer of the registered office of an SE into another member state is permitted by Art. 8 SE Regulation. The transfer of the registered office is subject to a resolution of the general meeting requiring the same majority applicable to amendments of the statutes. To any shareholder whose declaration of objection to the transfer resolution is recorded in the minutes of the general meeting the SE has to offer to acquire his shares against payment of an adequate cash compensation (Section 12 para. 1 sentence 1 SEAG).

11. Affiliated Companies

German law on groups of companies is applicable to the SE. Pursuant to the prevailing opinion this also applies to a controlled SE. Therefore, in the event of the conclusion of a control and/or profit and loss transfer agreement, the outside shareholders are entitled to the rights to adequate compensation payments which are provided for in the case of a stock corporation. This also applies in the case of a squeeze-out of minority shareholders against payment of an adequate cash compensation (Sections 327a et seqq. AktG). Therefore – pursuant to the prevailing opinion – the conversion into an SE does not lead to any changes.

12. Winding up by a Court

By virtue of the comprehensive reference provision in Art. 9 para. 1 lit. c)(ii) SE Regulation and Art. 63 SE Regulation, the provisions governing the winding up of stock corporations by a court (Sections 396 to 398 AktG) also apply to an SE the registered office of which is

situated in Germany, with the consequence that the conversion of BASF AG into an SE does not lead to any changes in this regard.

13. Criminal Law and Civil Penalty Provisions

Since the criminal law and civil penalty provisions under stock corporation law (Sections 399 et seqq. AktG) also apply to an SE (Section 53 SEAG and Art. 9 para. 1 lit. c)(ii) SE Regulation), the conversion does not lead to any changes in this regard, either.

V. Implementation of the Conversion of BASF AG into BASF SE

1. Preparation of the Conversion Plan

Pursuant to Art. 37 para. 4 SE Regulation, the board of executive directors has to prepare a conversion plan for the conversion of the company into an SE. The SE Regulation does not stipulate any requirements as to the content of the conversion plan (cf. Art. 37 SE Regulation). To the extent that Art. 37 para. 4 SE Regulation stipulates requirements with regard to the statements relating to the legal and economic aspects, these refer to the conversion report to be prepared by the board of executive directors.

As a guideline for the content of the Conversion Plan, the board of executive directors has presently taken recourse to the requirements stipulated by Art. 20 SE Regulation in respect of the merger plan, except where these are specifically designed to meet the particular requirements of a merger. In accordance with these provisions, the conversion plan has to contain stipulations regarding the name and registered office of the company, the statutes, special rights and special advantage as well as the procedure for the involvement of the employees.

The Conversion Plan prepared by the board of executive directors, including the statutes of BASF SE, is explained in more detail in chapters VI.1 and VI.2 of this conversion report.

On February 13, 2007, the board of executive directors has adopted the Conversion Plan (including the statutes of BASF SE) in its final version. In its meeting on February 27, 2007, the supervisory board has resolved to submit the Conversion Plan (including the statutes of BASF SE), in the version adopted by the board of executive directors, to the annual general meeting of shareholders of BASF AG on April 26, 2007, for approval. The Conversion Plan was recorded in notarized form on February 27, 2007.

From the convening of the 2007 annual general meeting of shareholders of BASF AG, the Conversion Plan, the certificate issued by the conversion auditor as well as this conversion report will be available for inspection at the offices of BASF AG, Carl-Bosch-Straße 38, 67056 Ludwigshafen, Germany. In addition, they are available on the Internet at www.basf.com. Upon request, a copy of these documents will be sent to each shareholder promptly and free of charge.

2. Conversion Audit

Pursuant to Artt. 3, 15 para. 1 SE Regulation in connection with Section 32 AktG, the incorporators have to prepare a report on the conduction of the formation of the SE.

Since BASF AG as a corporation is converted into another form of Corporation, an SE, no formation report has to be prepared. This follows from the application of the rationale of Section 75 para. 2 UmwG which provides that in the case of a merger a formation report and a formation audit are not required if the transferring entity is a corporation. It follows from the rationale of Section 75 para. 2 UmwG that no formation report is required in the case of a conversion, if the change of the legal form is conducted between corporations. However, it is required that a conversion audit is conducted by the members of the board of executive directors and the supervisory board of BASF SE (cf. Art. 15 para. 1 SE Regulation in connection with Section 33 para. 1 AktG).

Pursuant to Art. 37 para. 6 SE Regulation it is required that one or more independent experts ("**Conversion Auditors**") issue a certificate prior to the adoption of the resolution for the conversion into an SE by the general meeting of BASF AG certifying that the net assets of the Company are at least equivalent to its subscribed capital plus those reserves which pursuant to statutory provisions or the statutes may not be distributed (so-called value assessment).

In this regard, the board of executive directors of BASF AG has applied, in preparation of the conversion, to the competent District Court (*Landgericht*) Frankenthal by letter dated January 29, 2007, for the appointment of an independent expert pursuant to Art. 37 para. 6 SE Regulation in connection with Section 10 UmwG. In its application, the board of executive directors of BASF AG has proposed Deloitte & Touche GmbH, Wirtschaftsprüfungsgesellschaft, Georgstraße 52, 30159 Hannover, ("**Deloitte & Touche**") to be appointed as conversion auditor.

By court order of February 1, 2007, the District Court Frankenthal has appointed Deloitte & Touche as an independent expert. The Conversion Auditor has commenced its audit on February 7, 2007. On February 26, 2007, the auditor has issued the certificate pursuant to Art. 37 para. 6 SE Regulation. The certificate is restated in **Annex 2** to this report. It concludes that:

"According to the final result of our dutiful audit pursuant to Article 37 para. 6 SE Regulation and on the basis of the documents, account books

and papers presented to us as well as the information and confirmations given to us, we certify that BASF AG has net asset values at least in the amount of its subscribed capital plus those reserves which, pursuant to statutory law or the articles of association, may not be distributed."

It is not required that, in addition, a formation audit is conducted by external auditors pursuant to Art. 15 para. 1 SE Regulation in connection with Section 33 para. 2 AktG, since the rationale of Section 75 para. 2 UmwG which was described above also applies in this regard.

Besides, BASF AG does not cease to exist as a consequence of the conversion; it merely changes its legal form (cf. Art. 37 para. 2 SE Regulation).

3. General Meeting of Shareholders of BASF AG

The Conversion Plan and the statutes of BASF SE require the approval of the general meeting of shareholders of BASF AG (Art. 37 para. 7 SE Regulation).

Therefore, under item 7 of the agenda, the board of executive directors and the supervisory board of BASF AG submit the Conversion Plan, including the statutes of BASF SE, to the annual general meeting of BASF shareholders on April 26, 2007, for the adoption of a resolution.

4. Conduction of the Procedure for the Involvement of Employees in the Future BASF SE

In order to safeguard the rights to participate in the decisions of the Company acquired by the employees of BASF AG, in the course of the conversion of BASF AG into an SE, a procedure for the involvement of the employees in the future BASF SE is to be conducted. The objective of this procedure is the conclusion of an agreement regarding the involvement of employees in the SE, i.e., in particular, regarding the participation of the employees in the supervisory board of BASF SE and the procedure for the information and consultation of employees either by establishment of an SE works council or in another way to be agreed upon with the board of executive directors of BASF AG. In this regard – since the change of the legal form is effected by means of a conversion – in respect of all components of employee involvement at least the same extent of employee rights has to be granted as exists at BASF AG.

For the conduction of the negotiations, a Special Negotiating Body is to be established by the employees. Upon the establishment of the Special Negotiating Body, the negotiations between the management of BASF AG and the Special Negotiating Body regarding an agreement on employee involvement may begin which – subject to an extension to up to one year by mutual consent of the parties – last up to six months. In case no agreement is reached within this negotiation period, the subsidiary regulation by operation of law (Sections 22 et seqq. SEBG) applies.

The details of this procedure are described in Section 6 of the Conversion Plan and are commented on in chapter VI.1.f) of this report.

5. Registration of the Conversion Into BASF SE

After approval has been granted by the general meeting of BASF AG and after the conduction of the employee involvement procedure, the conversion can be filed with the commercial register of BASF AG in Ludwigshafen am Rhein and the entry in the register be made. Upon registration in the commercial register, the change of the legal form of BASF AG into BASF SE becomes effective.

a) Filing and Registration in the Commercial Register of BASF AG

The filing of the conversion for registration in the commercial register has to be made by the representative body of BASF AG as the company changing its legal form, i.e. by the board of executive directors (cf. Art. 15 para. 1 SE Regulation in connection with Section 246 para. 1 UmwG). In connection with the filing, the board of executive directors has to declare that an action against the validity of the conversion resolution has not been filed or has not been filed within the applicable period or that such action has been finally dismissed or withdrawn (so-called negative declaration, cf. Art. 15 para. 1 SE Regulation in connection with Sections 198 para. 3, 16 para. 2 UmwG). Without such declaration, the conversion must not be registered (so-called blockade of the register (*Registersperre*)).

In the case of an action against the validity of the conversion resolution of the general meeting of BASF AG, a clearance procedure (*Unbedenklichkeitsverfahren*) pursuant to Art. 15 para. 1 SE Regulation in connection with Sections 198 para. 3, 16 para. 3 UmwG may be conducted. This way, upon an application by BASF AG, the blockade of the register may be overcome if the action filed is inadmissible or evidently unfounded or if, in the unbiased opinion of the court in consideration of the gravity of the violations of law alleged in the action, an early effectiveness of the conversion is deemed to have priority in order to avert

the material disadvantages, to be shown by BASF AG, for the Company and its shareholders (cf. Section 16 para. 3 sentence 2 UmwG).

Furthermore, an SE may only be registered in the commercial register and thereby be established, if the procedure regarding the involvement of the employees has been completed (cf. Section 6 of the Conversion Plan and the related comments in chapter VI.1.f)). This is the case if either an agreement regarding the involvement of the employees has been concluded, or if the period in time stipulated for such negotiations has expired without an agreement having been concluded (Art. 12 para. 2 SE Regulation).

The statutes of future BASF SE may not, at any time, contradict a negotiated agreement on employee involvement (Art. 12 para. 4 SE Regulation). In the case of such contradiction, the statutes are to be amended by resolution of the general meeting of BASF AG.

If all registration requirements have been met the conversion is to be registered in the commercial register at the registered office of BASF AG. Upon registration, the SE acquires legal personality (cf. Art. 16 para. 1 SE Regulation). However, the principle of identity of the legal entity applies, i.e. BASF AG does not cease to exist as a company, but merely changes its legal form.

b) Establishment of the First Supervisory Board of Future BASF SE and Appointment of the First Board of Executive Directors

Upon the effectiveness of the conversion, the offices of the acting members of the board of executive directors and the supervisory board of BASF AG terminate. The members of the board of executive directors of BASF SE are to be appointed by the first supervisory board of BASF SE (cf. Art. 39 para. 2 sentence 1 SE Regulation), with the appointment already having to be made prior to the conversion becoming effective.

The six shareholder representatives are appointed in the statutes of BASF SE (cf. Art. 40 para. 2 sentence 2 SE Regulation and Art. 10 No. 2 sentence 1 of the statutes of BASF SE). Since the appointment of the employee representatives can only be made after the conclusion of the procedure for the involvement of employees by way of an agreement and since this procedure will not be concluded at the point in time of the general meeting of shareholders, their appointment in the statutes of BASF SE is not possible. Therefore, the employee representatives are appointed by the order of a court following the conclusion of the procedure for the involvement of employees by way of an agreement and after the filing of the conversion for registration (Art. 9 para. 1 lit. c)(ii) SE Regulation in connection with

Section 98 AktG), unless the agreement on the involvement of employees stipulates a different appointment procedure.

The supervisory board appointed in the statutes of BASF SE will constitute itself only with the shareholder representatives prior to the filing of the conversion for registration, it will elect the chairman of the supervisory board and will appoint the members of the board of executive directors. The members of the board of executive directors have to be included in the filing of the conversion with the commercial register (Art. 15 para. 1 SE Regulation in connection with Section 246 para. 2 AktG).

VI. Comments on the Conversion Plan and the Statutes of BASF SE as well as on the Consequences for Shareholders and Employees

1. Comments on the Conversion Plan

a) Conversion of BASF AG into BASF SE (Section 1 of the Conversion Plan)

Section 1 of the Conversion Plan stipulates that BASF AG is to be converted into a *Societas Europaea* (SE) pursuant to Art. 2 para. 4 in connection with Art. 37 SE Regulation.

For more than two years BASF AG has had a large number of subsidiaries which are governed by the laws of other member states of the EU, amongst others BASF Nederland B.V. with its registered office in Arnhem, the Netherlands, which was established by BASF AG on November 2, 1954, and which is registered in the commercial register (Handelsregister van de Kamers van Koophandel voor Centraal Gelderland). The requirements for the conversion of BASF AG into BASF SE pursuant to Art. 2 para. 4 SE Regulation are thereby fulfilled.

The conversion does neither lead to a winding up of the Company nor to the formation of BASF SE as a new legal entity. The interests of the shareholders in BASF AG continue to exist unchanged because of the preservation of the identity of the legal entity.

b) Effectiveness of the Conversion (Section 2 of the Conversion Plan)

The conversion becomes effective upon the registration in the commercial register of BASF AG. The registration may only occur after the conclusion of the employee involvement procedure. For this purpose, the management of BASF AG has to conduct negotiations with the Special Negotiating Body of the employees. Subject to an extension to up to one year by mutual consent of the parties, the negotiations may last up to six months.

c) Company Name, Registered Office, Subscribed Capital and Statutes of BASF SE, Cash Exit Offer (Section 3 of the Conversion Plan)

Section 3 of the Conversion Plan determines the company name, registered office, subscribed capital and statutes of BASF SE and clarifies that no cash exit offer has to be made.

The future company name of BASF AG is BASF SE. This change of the company name is mandatory, because an SE must place the addition "SE" in front of or behind its company name (Art. 11 para. 1 SE-Regulation). The registered office of the Company will continue to be located at Ludwigshafen am Rhein, Germany; this is also the place of its head office.

Section 3.3 of the Conversion Plan contains stipulations regarding the subscribed capital. Pursuant to these stipulations, the subscribed capital of BASF AG in the amount existing at the point in time of the registration of the conversion in the commercial register (current amount: Euro 1,282,790,400.00) becomes the subscribed capital of BASF SE.

The shareholders of BASF AG will hold an interest in the subscribed capital of BASF SE in the same extent and with the same number shares as they did in respect of the subscribed capital of BASF AG prior to the conversion becoming effective. The arithmetic portion of each no-par value share in the subscribed capital is maintained in the way it exists immediately prior to the conversion becoming effective.

As a consequence of the conversion of BASF AG into an SE, the content of the share certificate becomes incorrect. The Company is entitled, with the approval of the court, to cancel those actual shares which in spite of a respective invitation are not submitted to the Company to be exchanged (Section 73 para. 1 AktG). The company intends to make use of the authorization under Art. 5 No. 6 of the statutes of BASF SE and to exclusively evidence the shares of BASF SE in collective share certificates. The latter are to be held exclusively by way of collective deposit of securities.

Section 3.4 stipulates that BASF SE is to have the statutes enclosed as an annex to the Conversion Plan; the statute form part of the Conversion Plan. The statutes are commented on in detail below in chapter VI.2. of this report. Section 3.4 of the Conversion Plan further stipulates that the subscribed capital of BASF SE corresponds to the subscribed capital of BASF AG (Art. 3 Nos. 1 and 2 of the articles of association of BASF AG) at the point in time the conversion of BASF AG into an SE becomes effective. It is further stipulated that the authorized capital of BASF SE (Art. 5 No. 8 of the statutes of BASF SE) corresponds to the authorized capital of BASF AG (Art. 3 No. 7 of the articles of association of BASF AG) existing at the point in time the conversion becomes effective.

Claims for the delivery of shares under the conditional capitals provided for in the articles of association of BASF AG (Art. 3 Nos. 9 to 11 of the articles of association of BASF AG) do not exist or can no longer be asserted, respectively (Art. 3 No. 8 of the articles of association of BASF AG). Therefore, conditional capitals are not included in the statutes of BASF SE.

In order to be able to make adjustments, if necessary, to the statutes of BASF SE regarding the subscribed capital as well as the authorized capital, the supervisory board of BASF SE is authorized and instructed to make any adjustments, if necessary, to the wording of the draft of the statutes of BASF SE prior to the registration of the conversion. Accordingly, a

synchronization is achieved by the provision in Section 3.4 of the Conversion Plan between the amounts of the subscribed capital and the authorized capital of BASF AG and the respective capitals of future BASF SE.

Section 3.5 of the Conversion Plan stipulates that shareholders who object to the conversion are not being offered a cash compensation, since this is not provided for by statutory law.

d) Board of Executive Directors (Section 4 of the Conversion Plan)

Notwithstanding the statutory competences of the supervisory board of BASF SE under company law, it is to be assumed that the current acting members of the board of executive directors of BASF AG will be appointed as members of the board of executive directors of BASF SE. The current members of the board of executive directors of BASF AG are Dr. Jürgen Hambrecht (Chairman), Eggert Voscherau (Vice Chairman), Dr. Kurt Bock, Dr. Martin Bruder Müller, Dr. John Feldmann, Dr. Andreas Kreimeyer, Klaus Peter Löbbe, Dr. Stefan Marcinowski and Peter Oakley.

e) Supervisory Board (Section 5 of the Conversion Plan)

Pursuant to Art. 10 No. 1 of the statutes of BASF SE, BASF SE is to have a supervisory board which, in deviation from the current situation at BASF AG, comprises twelve instead of twenty members. Of the twelve members, six members are to be elected upon proposals of the employees.

The terms of office of the shareholder representatives as well as the terms of office of the employee representatives on the supervisory board of BASF AG terminate upon the effectiveness of the conversion.

Of the shareholder representatives on the supervisory board of BASF AG, the following members are to be appointed as members of the supervisory board of BASF SE (cf. Section 10 No. 2 of the statutes of BASF SE which are enclosed to the Conversion Plan as an annex): Prof. Dr. François N. Diederich, Michael Diekmann, Dr. Tessen von Heydebreck, Max Dietrich Kley, Prof. Dr. Jürgen Strube.

Furthermore, as shareholder representative on the supervisory board of BASF SE shall be appointed: Franz Fehrenbach, Stuttgart, chairman of the board of directors of Robert Bosch GmbH.

f) Information on the Procedure for Arrangements for Employee Involvement (Section 6 of the Conversion Plan)

Section 6 of the Conversion Plan contains particulars regarding the procedure by which the agreement regarding employee involvement is concluded pursuant to the SEBG and the national statutes transforming the SE Employee Involvement Directive in the other member states of the EU and in the signatory states to the EEA in which BASF Group has business activities. The provision further contains statements regarding the effects of the merger on the employees of BASF Group.

The statements contained in the Conversion Plan and the related comments in this report can only be made from a forward-looking perspective. The reason is that the invitation for the constituent meeting of the Special Negotiating Body which conducts the negotiations with the board of executive directors of BASF AG can only be issued after its members have been appointed, but no later than ten weeks after the proceedings have been initiated with the required notification pursuant to Section 4 para. 2 SEBG (cf. Section 12 in connection with Section 11 para. 1 sentence 1 SEBG). Taking into account this ten-week period, this means that the negotiations can start in June 2007.

(aa) Basic Principles and Terminology (Section 6.1 of the Conversion Plan)

In order to safeguard the rights to participate in entrepreneurial decisions acquired by the employees of BASF AG, in the course of the conversion into an SE a procedure for the involvement of the employees at BASF SE by virtue of an agreement is to be conducted. The objective is the conclusion of an agreement regarding the involvement of employees in the SE, i.e., in particular, regarding the participation of the employees in the supervisory board of BASF SE and the procedure for the information and consultation of employees either by establishment of an SE works council or in another way to be agreed upon with the board of executive directors of BASF AG. Section 6.1 of the Conversion Plan contains an introductory description of the basic principles and the relevant terminology in connection with the procedure for the involvement of employees in BASF SE.

The procedure for the involvement of employees is characterized by the principle of protecting the acquired rights of the employees of BASF AG. An agreement may not result in a reduction of the existing participation rights of the employees (Section 15 para. 5 SEBG). The extent of the involvement of the employees in the SE is determined by the definition in Section 2 para. 8 SEBG which, essentially, follows Art. 2 lit. h) of Council Directive

2001/86/EC of October 8, 2001 supplementing the Statute for a European company with regard to the involvement of employees.

"Involvement of employees" is the collective term for any mechanism – including, in particular, information, consultation and participation – through which employees' representatives may exercise an influence on decisions to be taken within the company.

"Information" in this context means the informing of the SE works council or other employees' representatives by the management of the SE, i.e. the board of executive directors of BASF SE, on matters which concern the SE itself and any of its subsidiaries or establishments situated in another member state or which exceed the powers of the decision-making organs in a single member state.

"Consultation" means, in addition to employees' representatives expressing an opinion on matters relevant for the decision-making process, the exchange of views between employees' representatives and management and a dialogue with the objective of reaching agreement, however, with the company management remaining free in its decision.

The most far-reaching influence is being conferred by participation; the term either refers to the right to appoint or elect members of the supervisory organ or, alternatively, to recommend such members for appointment or to oppose such recommendations made by a third party.

(bb) Current Situation and Consequences of the Conversion (Section 6.2 of the Conversion Plan)

Section 6.2 describes the current situation of BASF Group and contains information regarding the consequences of the conversion.

As parent company of BASF Group, BASF currently has a supervisory board with twenty members which is composed on a parity basis in accordance with the MitbestG 1976. With regard to the ten employee representatives on the supervisory board of BASF AG, presently only the employees of the group companies employed in Germany have the active and passive voting right in accordance with the MitbestG 1976. The provisions of the MitbestG 1976 regarding the representation of employees on the supervisory board of BASF AG are being replaced by the stipulations of the SEBG. (With regard to the other consequences of the change of the legal form for the employees and their representative bodies see VI.1.g) below). Upon the effectiveness of the conversion of BASF AG into an SE, the terms of office of the employee representatives as well as the terms of office of the

shareholder representatives on the supervisory board of BASF AG terminate (see VI.1.e) above). The shareholder representatives on the new supervisory board of BASF SE are already appointed in the statutes of BASF SE. The first employee representatives on the supervisory board of BASF SE will be appointed after the completion of the procedure for the involvement of employees. It is to be expected that the appointment of the first employee representatives will be made by the local court of Ludwigshafen am Rhein (court of registration) as the competent court for BASF SE, unless the agreement on the involvement of employees stipulates a different appointment procedure.

In addition to the supervisory board of BASF AG, there are additional bodies at the level of its group companies in which the employees have participation rights.

In the group companies of BASF AG there are bodies representing employees in accordance with legal requirements under applicable national laws. The works council structure of BASF AG follows a two-tier system with the works council in the Ludwigshafen plant and the joint works council.

On the European level, the employee representative bodies of the group companies are organized within the BASF Euro Dialog. The BASF Euro Dialog is a voluntary agreement on cross-national information and consultation pursuant to Section 41 para. 1 of the European Works Councils Act (*Europäisches Betriebsrätegesetz* – "**EBRG**"). Pursuant to Section 47 para. 1 no. 2 SEBG, the SEBG only affects the provisions of the EBRG the Euro Dialog and the SE works council have similar functions with regard to the cross-national information and consultation of the employees.

(cc) Initiation of the Procedure Regarding the Involvement of Employees (Section 6.3 of the Conversion Plan)

Section 6.3 of the Conversion Plan describes the initiation of the procedure regarding the involvement of employees in the form of the notification of the employees and their representative bodies involved which is required for this purpose by statutory law. The information which is to be made available is provided for by statutory law and is also listed in Section 6.3.

The initiation of the procedure for the involvement of the employees is conducted in accordance with the provisions of the SEBG. The latter require that the management body of the participating company, i.e. the board of executive directors of BASF AG, requests the employees to establish a Special Negotiating Body and that it notifies the employees or their

representative bodies involved, respectively, about the conversion project. The procedure is to be initiated unrequested and without undue delay after the board of executive directors of BASF AG has published the Conversion Plan prepared by it. The publication is made by virtue of the filing of the Conversion Plan attested by a notary public with the competent commercial register in Ludwigshafen am Rhein. The required notification of the employees or their representative bodies, respectively, includes, in particular, (i) the names and structure of BASF AG, concerned subsidiaries and concerned establishments, and their distribution among the member states; (ii) the bodies representing employees existing within these companies and establishments; (iii) the number of persons employed in these companies and establishments, and the total number of persons employed in a given member state determined on the basis thereof, and (iv) the number of employees enjoying participation rights in the corporate bodies of these companies.

(dd) Establishment of the Special Negotiating Body (Sections 6.4 and 6.5 of the Conversion Plan)

It is provided by statutory law that the employees or, respectively, their representative bodies involved elect or appoint the members of the Special Negotiating Body within a period of ten weeks after the initiation of the procedure by means of the notification required by law of the employees or, respectively, the employee representatives involved. The Special Negotiating Body is composed of representatives of the employees from all affected member states of the EU and the signatory states to the EEA which are involved.

It is the task of this Special Negotiating Body to negotiate with the management of the SE the procedural details of the involvement procedure and the determination of the participation right of the employees within the SE.

The establishment and composition of the Special Negotiating Body are, in principle, subject to German law (Sections 4 to 7 SEBG). The allocation of the seats in the Special Negotiating Body to the individual member states of the EU and the signatory states to the EEA in which BASF Group has employees is governed, in respect of the formation of an SE with its registered office in Germany, by Section 5 para. 1 SEBG. The allocation of the seats follows the following basic principle:

Each member state of the EU and signatory state to the EEA in which BASF Group has employees is allocated at least one seat. The number of seats allocated to a member state of the EU or a signatory state to the EEA is increased by 1 in each case where the number of employees employed in this member state of the EU or signatory state to the EEA exceeds

the thresholds of 10%, 20%, 30% etc. of all employees of BASF Group within the EU or of the EEA, respectively. The relevant point in time for the determination of the allocation of seats is, in principle, the time of the notification (cf. Section 4 para. 4 SEBG).

On the basis of the employee figures of BASF Group in the individual member states of the EU and the signatory states to the EEA as of December 31, 2006, the following allocation of seats applies:

Country	Number of employees	% (rounded)	Representatives in the Special Negotiating Body
Austria	119	0.18	1
Belgium	4,101.1	6.25	1
Bulgaria	17	0.03	1
Czech Republic	230	0.35	1
Denmark	297	0.45	1
Finland	128	0.2	1
France	2,351.50	3.58	1
Germany	51,148.45	77.98	8
Greece	79	0.12	1
Hungary	132	0.2	1
Ireland	16	0.02	1
Italy	1,517	2.31	1
Lithuania	16	0.02	1
Malta	1	0.0	1
The Netherlands	1,096	1.67	1
Norway	32	0.05	1
Poland	271	0.41	1
Portugal	450	0.69	1
Romania	32	0.05	1
Sweden	198	0.3	1
Slovakia	130	0.2	1
Slovenia	38	0.06	1
Spain	1,919	2.93	1
United Kingdom	1,270.5	1.94	1
Total (24 countries)	65,589.55	100	31

If, during the term of office of the Special Negotiating Body, changes in the structure of or number of employees in the participating companies, concerned subsidiaries or concerned

establishments occur as a result of which the composition of the Special Negotiating Body would be altered, the Special Negotiating Body is to be reconstituted accordingly (Section 5 para. 4 SEBG).

With regard to the election or appointment, respectively, of the members of the Special Negotiating Body from the individual EU member states and EEA signatory states the relevant national provisions of law apply. Thus, a variety of procedures are being applied, such as the election by direct vote, appointment by labour unions or, as is the case under German law, the election by an election body (cf. Section 8 SEBG); in the case of BASF AG, this body is the joint works council. The election or, respectively, appointment of the members as well as the establishment of the Special Negotiating Body is, in principle, the responsibility of the employees and their representative bodies involved and of the relevant unions, respectively.

At the earliest after the determination of all members of the Special Negotiating Body, but no later than 10 weeks after the notification pursuant to Section 4 para. 2 and para. 3 SEBG (cf. Sections 12 para. 1, 11 para. 1 SEBG), the board of executive directors of BASF AG has to issue, without undue delay, the invitations for the constituent meeting of the Special Negotiating Body. On the day of the constituent meeting, the procedure for the establishing of the Special Negotiating Body ends and the negotiations begin for which a duration of up to six months is provided for under statutory law. This period may be extended to a period of up to one year by mutual consent of the parties to the negotiation.

The negotiation procedure takes place also if the period for the election or appointment of individual or all members of the Special Negotiating Body is exceeded for reasons within the responsibility of the employees (Section 11 para. 2 sentence 1 SEBG).

Members who are being elected or appointed during the course of the negotiations are not finally excluded; they may, at any time, participate in the negotiation procedure (Section 11 para. 2 sentence 2 SEBG). However, a member joining the ongoing negotiations has to accept the current status of the negotiations at that time. There is no claim for an extension of the six-months negotiation period (Section 20 SEBG).

The objective of the negotiations is the conclusion of an agreement regarding the involvement of employees in BASF SE. The subject matter of the negotiations is the participation of the employees in the supervisory board of BASF SE and the determination of the procedure for the information and consultation of employees either by establishment of an SE works council or in another way.

(ee) Agreement Regarding the Participation of Employees on the Entrepreneurial Level
(Section 6.6 of the Conversion Plan)

Section 6.6 describes which minimum content an agreement regarding the participation of employees has to contain with regard to involvement on the entrepreneurial level.

As required by Art. 40 para. 3 SE Regulation, Section 17 para. 1 SEAG, the statutes have to stipulate the number of members of the supervisory board or the rules for the determination of such number. Section 10 No. 1 of the statutes of BASF SE stipulates that the future supervisory board shall comprise twelve members. In this regard, it is mandatory that the principle of composition on a parity basis be maintained (cf. Sections 15 para. 5, 16 para. 3 SEBG). Accordingly, the statutes of BASF SE provide that six of the members of the supervisory board are to be appointed upon the proposal of the employees.

Art. 12 para. 4 SE Regulation stipulates that the statutes of the SE may not, at any time, contradict a negotiated agreement. Therefore, if necessary, the statutes have to be amended by resolution of the general meeting of BASF AG in case that a deviating stipulation regarding the participation of the employees is laid down in an agreement on the involvement of employees in future BASF SE. The conversion of BASF AG into an SE would only become effective after the registration of the alteration of the statutes in the commercial register of the company.

No resolution may be adopted which results in a reduction of employee participation rights (cf. Section 15 para. 5 SEBG). Equally, no resolution may be adopted to the effect that no negotiations should be entered into or that negotiations already entered into should be broken off (cf. Section 16 para. 3 SEBG). In the event that such agreement regarding employee involvement is not concluded, employee participation is governed by the subsidiary regulation by operation of law which is explained below.

(ff) Agreement Regarding the Information and Consultation of the Employees (Section 6.7 of the Conversion Plan)

Section 6.7 further describes the minimum content which an agreement regarding the procedure for the information and consultation of employees has to contain.

Furthermore, in the agreement between the executive board of directors and the Special Negotiating Body a procedure is to be stipulated for the purpose of the information and consultation of the employees in the SE. This may be achieved by establishing an SE works

council or by another procedure stipulated by the parties to the negotiations which facilitates the information and consultation of the employees of BASF SE. In the case of the establishment of an SE works council, the following has to be stipulated: the scope of application, the number of its members and the allocation of seats, the functions and the procedure for its information and consultation, the frequency of meetings, the financial and material resources to be made available, the date of entry into force and the duration of the agreement as well as the circumstances in which the agreement is to be renegotiated and the procedure to be used in this regard. Instead of establishing an SE works council, another procedure may also be stipulated which facilitates the information and consultation of the employees.

Further, it is to be stipulated in the agreement that negotiations concerning the involvement of employees in the SE shall also be opened prior to structural changes to the SE.

(gg) Adoption of Resolutions in the Special Negotiating Body (Section 6.8 of the Conversion Plan)

The conclusion of an agreement between the management of the company and the Special Negotiating Body regarding the involvement of employees requires a resolution adopted by the Special Negotiating Body. The resolution is to be adopted by a majority of the appointed members, provided that this majority also represents a majority of the represented employees. No resolution may be adopted which results in a reduction of employee participation rights (cf. Section 15 para. 5 SEBG). It is also not permissible to refrain from entering into or to abandon negotiations (cf. Section 16 para. 3 SEBG).

(hh) Subsidiary Regulation by Operation of Law (Section 6.9 of the Conversion Plan)

If no agreement regarding the involvement of employees is being reached within the negotiation period, the subsidiary regulation by operation of law pursuant to Sections 22 et seqq. SEBG applies; the latter may also be agreed upon from the outset as the content of the agreement.

In the present case, the subsidiary regulation by operation of law would have the consequence with regard to employee participation on the supervisory board that the principle of employee participation on a parity basis existing at the supervisory board of BASF AG would be continued for BASF SE, so that half of the members of the supervisory board of BASF SE would be employee representatives. However, in contrast to the current situation regarding the employee representatives on the supervisory board of BASF AG, these representatives

would no longer be exclusively appointed by the employees in Germany, but by all employees in the member states of the EU and the signatory states to the EEA. The employees would have to appoint, in accordance with the respective provisions applicable in these countries their employee representatives who are to be elected by the general meeting of BASF SE. If no appointment were made, the SE works council would have to make it.

In contrast to the establishment of the Special Negotiating Body, according to Section 36 para. 1 SEBG the allocation of seats on the supervisory board is made solely on the basis of proportional representation. Employees from all member states are taken into account in the proportionate allocation in accordance with the d'Hondt highest averages method.

On the basis of the current number of employees and their distribution by countries, on the supervisory board composed of twelve members there would be five seats for the employees from Germany and one seat for employees of BASF Group from Belgium, with the one seat to be allocated, at the expense of the employees from Germany, to the employees working in Belgium as the second-largest member state in terms of number of employees. This follows from Section 36 para. 1 sentence 3 SEBG, according to which in the event that in the course of the proportionate allocation the employees of one or more member states are not allocated a seat the last seat to be allocated is to be allocated to one of the so far non-represented member states. It follows from the rationale of Section 5 para. 3 SEBG that the seat to be allocated is to be allocated to that member state which has the largest number of employees among the non-represented member states.

Pursuant to Section 36 para. 3 sentence 1 SEBG, the determination of the domestic employee representatives, i.e. those allocated to Germany, for the supervisory board of an SE is made by an election body which is composed of the members of the employee representative bodies of the SE, its subsidiaries and establishments. Pursuant to Section 8 para. 2 sentence 2 SEBG, the representation by the election body also includes, in principle, those employees who have not elected a works council in their establishment or company.

The manner in which the composition of the election body is determined depends on which employee representative bodies already exist at BASF AG, a subsidiary or an establishment involved. In principle, those employee representative bodies which, in each case, exist at the highest level of works councils are to assume the task of the election. If only one domestic company group participates in the formation of an SE at which a joint works council exist, the election body is composed of the members of the latter.

Within BASF Group, a joint works council has been established. Since the maximum number of members of the election body is 40 (cf. Section 36 para. 3 sentence 2 in connection with Section 8 para. 6 sentence 1 SEBG) and the joint works council of BASF AG has 42 members, the number of members in the election body is to be reduced in accordance to their proportion pursuant to the d'Hondt highest averages method (cf. Section 8 para. 6 sentence 3 SEBG).

Pursuant to Section 36 para. 3 sentence 2 SEBG, with regard to the election procedure for the employee representatives on the supervisory board, the provisions for the election of the domestic representatives in the Special Negotiating Body are applied *mutatis mutandis*. Pursuant to Section 6 para. 2 SEBG, the employees of the SE, of the subsidiaries and the establishments as well as union representatives are eligible for the supervisory board of an SE.

Statutory law in this regard refrains from laying down detailed provisions and confines itself to describing general principles. Section 10 para. 1 SEBG stipulates a minimum number of members present of the election body as well as the allocation of voting rights in accordance with the number of employees represented by the respective works councils in the election body. Accordingly, at least two thirds of the members of the election body who represent at least two thirds of the employees have to be present for the election. The members of the election body have as many votes as they represent employees. The election is made by simple majority of the votes cast.

In the event that more than two members of the supervisory board of the SE are from Germany, every third member from Germany is to be elected upon a respective proposal from a union which is represented in one of the enterprises involved in the formation of the SE (cf. Section 36 para. 3 sentence 2 in connection with Sections 6 para. 3, 8 para. 1 sentence 2 SEBG). Thus, there is a right to make proposals for the election, but no delegation right. This provision is modelled after the provision in Section 7 para. 2 MitbestG 1976 which, depending on the size of the supervisory board, stipulates a certain number of union representatives.

Pursuant to Section 36 para. 1 sentence 3 SEBG, on the basis of the current employee figures there would be five employee representatives from Germany on the supervisory board of BASF SE, with the consequence that one seat on the supervisory board would be allocated to a union representative from Germany. The right to submit proposals in respect of this seat does not rest with the election body, but – insofar reflecting Section 16 para. 2

MitbestG 1976 – election proposals for union representatives may be submitted by any union which is represented in one of the enterprises involved in the formation of the SE, i.e. the unions represented in BASF Group in Germany.

The term "enterprises involved" also includes the concerned domestic subsidiaries and establishments.

The union proposals for the election of the union representative on the supervisory board are binding on the election body; the union representative is to be elected from among the proposed persons. The election body cannot, of its own right, propose other candidates for this particular seat on the supervisory board.

With regard to the protection of the right to information and consultation of the employees, the subsidiary regulation by operation of law would have the consequence that an SE works council would have to be established at BASF SE, the function of which would be to safeguard the right to information and consultation of the employees in the SE.

The SE works council would be responsible for matters which affect the SE itself, one of its subsidiaries or one of its establishments in another member state or which go beyond the powers of the competent bodies at the level of the individual member states. The SE works council is to be notified and consulted annually with regard to the development of the business situation and the future prospects of the SE. This annual notification has to be conducted in the form of a joint meeting with the board of executive directors of BASF SE (cf. Section 28 para. 1 SEBG). In preparation of this meeting, the management of BASF SE has to provide to the SE works council, in particular, the documents specified in Section 28 para. 1 SEBG. With regard to extraordinary circumstances, the SE works council would also have to be notified and consulted. The composition of the SE works council as well as the election of its members are determined, in principle, in accordance with the provisions applicable to the composition and appointment of the members of the Special Negotiating Body.

(ii) Review at Regular Intervals (Section 6.10 of the Conversion Plan)

Section 6.10 describes the review of employee involvement in the SE at regular intervals in cases where the subsidiary regulation by operation of law applies. In this case, it is to be reviewed every two years during the existence of the SE whether changes within the SE, its subsidiaries or its establishments require an alteration of the composition of the SE works council. Besides, in case the subsidiary regulation by operation of law applies, four years

after its establishment the SE works council has to resolve with the majority of its members whether negotiations shall be re-opened with regard to an agreement for the involvement of employees within the SE or whether the existing regulations are to remain in place. If a resolution is adopted to enter into negotiations for an agreement regarding the involvement of employees, for the purpose of these negotiations the SE works council replaces the Special Negotiating Body.

(jj) Costs of the Special Negotiating Body (Section 6.11 of the Conversion Plan)

The necessary costs arising from the establishment and operation of the Special Negotiating Body will be borne by BASF AG and, after its formation, by BASF SE (cf. Section 19 SEBG). Pursuant to Section 6.11, the obligation to bear the costs includes the material and personal expenses incurred in connection with the activities of the Special Negotiating Body, including the negotiations. In particular, premises, material resources (e.g. telephone, telefax, required literature), interpreters and clerical staff required for meetings are to be provided and the travel and subsistence expenses of the members of the Special Negotiating Body are to be met.

g) Other Consequences of the Conversion for the Employees and their Representative Bodies (Section 7 of the Conversion Plan)

Section 7 describes the other consequences of the conversion for the employees and their representative bodies.

The employment contracts of the employees of BASF AG as well as the employment contracts of the employees of BASF Group with the respective group companies are not affected by the conversion. Equally, with the exception of the procedure for the involvement of employees described in Section 6 of the Conversion Plan, the conversion of BASF AG into an SE does not have any consequences for the employees of BASF Group with regard to the participation rights of the employees of BASF AG and of the companies of BASF Group.

Further, there are no other measures intended or planned as a consequence of the conversion which would affect the situation of the employees.

h) Auditor (Section 8 of the Conversion Plan)

Section 8 of the Conversion Plan provides for the appointment of the auditor for the first financial year of BASF SE.

i) No Additional Rights or Special Rights

Section 9 of the Conversion Plan stipulates that persons in terms of Art. 20 para. 1 lit. f) and g) SE Regulation as well as of Section 194 para. 1 No. 5 UmwG will not be granted any rights or special rights in addition to the issuance of shares referred to in Section 3.3 of the Conversion Plan.

2. Comments on the Statutes of BASF SE

Upon effectiveness of the conversion, BASF AG changes its legal form into an SE. The existing articles of association of BASF AG will be replaced by the new statutes of BASF SE. These statutes are part of the Conversion Plan which is subject to approval by the general meeting of shareholders of BASF AG.

The present draft of the statutes of BASF SE is based on the existing articles of association of BASF AG. In this regard, the stipulations of the current articles of association of BASF AG could be adopted, to a large extent, for the statutes of future BASF SE, because essentially the provisions of the SE Regulation and the SEAG relevant for the statutes of BASF SE correspond to the provisions applicable to the articles of association of a German stock corporation; however, the statutes were revised as to their structure and updated, in particular, with regard to the description of the corporate purpose.

In the following paragraphs, the draft statutes for BASF SE are commented on as follows:

a) Legal Form, Company Name, Registered Office (Art. 1 of the Statutes)

As is the case with BASF AG, the registered office of BASF SE will be situated in Ludwigshafen am Rhein, Germany; this is also the place of its head office. Except for the alteration of the adjunct indicating the legal form from "Aktiengesellschaft" into "SE", the company name will not be altered as a consequence of the conversion. The alteration of the adjunct indicating the legal form is a mandatory requirement pursuant to Art. 11 para. 1 SE Regulation.

b) Corporate Purpose (Art. 2 of the Statutes)

The corporate purpose of BASF SE was streamlined compared to the version in the articles of association of BASF AG, however, without any changes of its content.

c) Financial year (Art. 3 of the Statutes)

As is presently the case with BASF AG, the financial year of BASF SE corresponds to the calendar year. The respective provision in the articles of association was previously contained in Art. 4 of the articles of association of BASF AG.

d) Notifications (Art. 4 of the Statutes)

As is already presently provided for in Art. 21 of the articles of association of BASF AG, announcements of the Company will be made in the electronic Federal Gazette (*elektronischer Bundesanzeiger*).

e) Subscribed Capital and Shares (Art. 5 of the Statutes)

(aa) Amount and Division of the Subscribed Capital

In Art. 5 Nos. 1 and 4 of the statutes of BASF SE, provisions are made for the subscribed capital and the division into no-par value shares made out to the bearer. Previously, the provisions concerning the subscribed capital and the shares were contained in Art. 3 Nos. 1, 2 and 3 of the articles of association of BASF AG.

It is stated in Art. 5 No. 2 that the subscribed capital of BASF SE is provided by way of conversion of BASF AG into BASF SE. With regard to the application of the law of incorporation, such provision is required and therefore a corresponding note regarding the provision of the subscribed capital has been included in the statutes of BASF SE.

However, in order to achieve a parallelism of the amounts of the subscribed capitals of BASF AG and BASF SE at the point in time the conversion becomes effective, it is expressly provided in the Conversion Plan that the supervisory board of BASF SE is authorized and also instructed to make any adjustments, if necessary, to the wording of the statutes, including the subscribed capital, in order to ensure that at the point in time the conversion becomes effective the subscribed capital and its division into shares of BASF SE corresponds to the subscribed capital and its division into shares of BASF AG. In the event that prior to the conversion becoming effective the amount of the subscribed capital should change, the wording of the statutes would have to be amended accordingly.

The stipulations regarding the shares in Art. 5 Nos. 3 to 5 correspond to the stipulations in Art. 3 Nos. 2 to 5 of the articles of association of BASF AG. The shares are no-par value shares and are made out to the bearer.

Pursuant to Art. 5 No. 5 of the statutes, BASF SE is entitled to evidence shares by individual or collective certificates. The form and content of the share certificates and of the dividend coupons and talons are determined by the board of executive directors of BASF SE, with the consent of the supervisory board. The shareholders' right to have their shares embodied in certificates is excluded, unless certificates are required under the rules applicable at a stock exchange where the shares are admitted (Art. 5 No. 6).

The Company intends not to issue any more actual share certificates in the future. The actual share certificates of BASF AG are to be cancelled.

(bb) Entitlement to Participate in the Profits (Art. 5 No. 7 of the Statutes)

Art. 5 No. 7 of the statutes of BASF SE provides – as does Art. 3 No. 7 of the articles of association of BASF AG – that in the case of a capital increase the distribution of profits may be determined in deviation from Section 60 AktG, with the consequence that, for example, shares issued during the course of a financial year may be entitled to dividends for the entire financial year.

(cc) Authorized Capital

Art. 5 No. 8 of the statutes of BASF SE corresponds to the stipulations concerning authorized capital in Art. 3 No. 7 of the articles of association of BASF AG. Art. 5 No. 8 of the statutes of future BASF SE provides for an authorized capital against contributions in cash and/or in kind with an aggregate nominal amount of up to Euro 500,000,000.00. This authorized capital of BASF SE functionally replaces the authorized capital currently existing at BASF AG.

However, in addition to the stipulations in the articles of association of BASF AG, a provision has been added that the amount of the authorized capital may not be higher than the amount of the respective authorized capital in which such authorized capital is stated in the articles of association of BASF AG at the point in time of the conversion of BASF AG. This ensures that the amount of the authorized capital of BASF SE is identical to the amount stated for BASF AG. Since, as a consequence of the conversion of BASF AG into BASF SE, the legal form is changed, but the legal entity continues to exist, a synchronization is achieved by this provision of the amount of the authorized capital of BASF AG and the one of BASF SE (cf. also Section 3.4 of the Conversion Plan as well as the comments in chapter VI.1.c) of this report). Thus, the amount of the authorized capital in Art. 5 No. 8 of the draft statutes of BASF SE are also to be adjusted accordingly in the case of any capital increases of

BASF AG from authorized capital prior to the effectiveness of the conversion. Section 3.4 of the Conversion Plan contains an authorization and instruction of the supervisory board of BASF SE to adjust accordingly the wording of the draft statutes of BASF SE.

The purpose of the authorized capital is, again, to enable the Company to strengthen its equity basis in favourable capital market conditions. In this case, the new shares generally have to be offered to the shareholders for subscription.

The authorized capital further provides for an authorization of the board of executive directors to issue up to 15,000,000 of these new shares to employees of the Company and of affiliated companies of the Company. To this extent, the statutory subscription right of shareholders is excluded.

The board of executive directors is further authorized, with the consent of the supervisory board, to exclude the statutory subscription right of the shareholders,

- (i) in order to acquire companies, parts of companies or holdings in companies in return for the transfer of shares in appropriate individual cases,
- (ii) in order to use any residual amounts.

In addition, it is authorized pursuant to Art. 5 No. 8 b) of the draft statutes of BASF SE to exclude the subscription right to the extent this is necessary to prevent dilution in order to grant the owners of option certificates and the creditors of convertible bonds which are issued by the Company or its affiliates in connection with an authorization granted to the board of executive directors by the general meeting of shareholders or to grant subscription rights to the holders of option rights issued in connection with share option programs for senior executives submitted to the general meetings on April 29, 1999, and April 26, 2001, to the extent that this would be due to them after exercising the option or conversion right or after fulfilling conversion obligations. This authorization has become irrelevant, because neither were convertible bonds issued, nor does an authorization for an issuance exist, and no subscription rights have been issued on the basis of the share option programs specified.

In the case of capital increases in return for cash contributions, the board of executive directors is also authorized to exclude the statutory subscription right of shareholders, if the issue price of the new shares is not substantially lower than the stock market price and the total number of shares issued under this authorization is not more than 10% of the subscribed capital on the date of issue.

(dd) Conditional Capitals

Claims for the delivery of shares under the conditional capitals provided for in the articles of association of BASF AG (Art. 3 Nos. 9 to 11 of the articles of association of BASF AG) do not exist or can no longer be asserted, respectively (Art. 3 No. 8 of the articles of association of BASF AG). Therefore, conditional capitals are not included in the statutes of BASF SE.

f) Corporate Bodies (Art. 6 of the Statutes)

The SE Regulation pursuant to its Art. 38 lit. b) offers a choice between the two-tier system (supervisory board and managing organ) and the one-tier system (administrative organ). BASF AG has opted in favour of the two-tier system, which corresponds to the present structure of BASF AG. Accordingly, Art. 6 of the statutes stipulates, in accordance with Art. 38 lit. b) SE Regulation, that the corporate bodies of the Company are the board of executive directors, the supervisory board and the general meeting of shareholders.

g) Composition of the Board of Executive Directors (Art. 7 of the Statutes)

The members of the board of executive directors are appointed and dismissed by the supervisory board (Art. 7 No. 1 sentence 1 of the statutes of BASF SE).

As is presently the case under Art. 5 No. 1 of the articles of association of BASF AG, pursuant to Art. 7 No. 1 of the statutes, the board of executive directors of BASF SE comprises at least two persons, with the supervisory board being authorized to determine a larger number. Also, pursuant to Art. 7 No. 3, a chairman of the board of executive directors may be appointed, as is currently provided for in Art. 5 No. 2 sentence 2 of the articles of association of BASF AG.

Pursuant to Art. 7 No. 2, the members of the board of executive directors are appointed by the supervisory board for a maximum term of five years. Reappointments are permissible. Under German stock corporation law, the members of the board of executive directors of BASF AG can be appointed for a maximum term of five years (Section 84 para. 1 sentence 1 AktG). In an SE, the maximum term for members of corporate bodies is six years (Art. 46 para. 1 SE Regulation); the term is to be stipulated in the statutes. Thus, the stipulations now proposed for BASF SE generally follow the stock corporation law provision in Section 84 para. 1 sentence 1 AktG.

h) Quorum / Passing of Resolutions by the Board of Executive Directors (Art. 8 of the Statutes)

Pursuant to Art. 8 of the statutes, the board of executive directors of BASF SE constitutes a quorum if all members of the board of executive directors have been invited and at least half of its members participate in a meeting in person or by means of electronic media. Members of the board of executive directors who are not present at the passing of a resolution may cast their vote in writing, by telephone, telefax or by means of electronic media.

Art. 8 No. 2 of the statutes provides that the resolutions of the board of executive directors are to be adopted by simple majority of the votes unless a larger majority is required by mandatory law. In cases where resolutions are to be passed by a simple majority and there is an equality of votes, the chairman of the board of executive directors has a casting vote. This provision of the statutes follows the statutory provision in Art. 50 para. 1 lit. b) SE Regulation and, with regard to the casting vote, in Art. 50 para. 2 SE Regulation.

i) Representation (Art. 9 of the Statutes)

Pursuant to Art. 9 No. 1 the statutes, the Company is legally represented by two members of the board of executive directors or by one member of the board of executive directors together with a *Prokurist*. This stipulation corresponds to the provision already currently contained in Art. 6 No. 1 of the articles of association of BASF AG.

The board of executive directors may grant authority to represent the Company in legal transactions, in particular, in the form of a *Prokura* in accordance with the provisions of the German Commercial Code. As is presently the case – cf. Art. 6 No. 2 of the articles of association of BASF AG – *Prokura* is supposed to be granted only in the form of a joint power of attorney (*Gesamtprokura*) together with at least one other person.

j) Composition, Appointment, Term of Office of the Supervisory Board (Art. 10 of the Statutes)

Art. 10 of the statutes makes provisions for the composition, appointment and term of office of the members of the supervisory board of BASF SE.

In accordance with these provisions, the supervisory board of BASF SE comprises twelve members. All twelve members of the supervisory board are appointed by the general meeting of shareholders. Of the twelve members, six members are to be elected upon proposals of the employees. The proposals for the election of the employee representatives are binding on the general meeting. If an agreement regarding the participation of the employees concluded in

accordance with the SEBG stipulates a different appointment procedure for the six employee representatives on the supervisory board, such agreement takes precedence over the stipulations in the statutes with the consequence that the employee representatives are not appointed by the general meeting.

As is required by Section 35 para. 1 SEBG, the extent of employee involvement currently existing at BASF AG in the form of the parity principle is also maintained in BASF SE.

In Art. 10 No. 2 of the statutes, the six shareholder representatives on the first supervisory board are being appointed. Their term of office ends upon the conclusion of the general meeting resolving on the formal discharge of the supervisory board for the financial year ending on December 31, 2008. The other six members of the first supervisory board are appointed upon a proposal of the employees after the completion of the procedure for the involvement of the employees.

According to Art. 40 para. 2 sentence 2 SE Regulation, the members of the first supervisory board may be appointed in the statutes; the terms of office are also to be determined in the statutes. The supervisory board appointed by the general meeting of BASF AG has to appoint the board of executive directors of BASF SE. Therefore, the supervisory board has to constitute itself before the registration of the conversion of BASF AG into an SE.

Art. 10 No. 3 of the statutes makes provisions for the term of office of the members of the supervisory board who are not members of the first supervisory board of BASF SE. Currently, the members of the supervisory board of BASF AG may regularly be appointed for a term of five years. Their office expires upon the conclusion of the general meeting resolving on the formal discharge of the supervisory board for the fourth financial year after the beginning of their term, with the financial year in which their term commenced not being taken into account (cf. Section 102 AktG, Art. 8 No. 2 of the articles of association of BASF AG). Pursuant to Art. 10 No. 3 of the statutes of BASF SE, the appointment of the members of the supervisory board – subject to the appointment of the members of the first supervisory board – is also made for a term until the conclusion of the general meeting which resolves on the formal discharge of the supervisory board for the fourth financial year after the term of office commenced, with the financial year in which the term of office commences not being taken into account. However, the appointment is made for a maximum term of six years, with reappointments being permissible. This provision of the statutes reflects Art. 46 para. 1 SE Regulation according to which the term of office of members of corporate bodies may not be longer than six years and has to be stipulated in the statutes of the company.

A member of the supervisory board of BASF SE may, upon giving one month's notice in writing, resign from office at any time. Any member elected by the general meeting may be removed from office prior to the end of the term for which he has been elected by a resolution of the general meeting. This provision in Art. 10 No. 4 of the statutes of BASF SE corresponds to the stipulation currently contained in Art. 8 No. 5 of the articles of association of BASF AG with the exception that so far a dismissal only required a simple majority. With regard to the future majority requirements in the general meeting, cf. Art. 19 No. 2 of the statutes of BASF SE.

If a member appointed by the general meeting ceases to be a member of the supervisory board before his term of office expires, a substitute member is to be appointed by the next general meeting. The newly-appointed member is to hold office for the remainder of the term of office of the member whose membership has ceased. This provision in Art. 10 No. 5 of the statutes of BASF SE reflects the corresponding provision in the articles of association of BASF AG (cf. Art. 8 No. 3). It leads to a synchronization of the terms of office of all supervisory board members and avoids staggered terms of office of the members of the supervisory board.

k) Chairmanship in the Supervisory Board (Art. 11 of the Statutes)

Pursuant to Art. 11 No. 1 sentence 1 of the statutes, the supervisory board elects a chairman and one or more deputy chairmen.

Since the supervisory board of BASF SE comprises twelve members, six of which are shareholder representatives and six of which are employee representatives, pursuant to Art. 42 SE Regulation only a shareholder representative is eligible as chairman of the supervisory board (cf. Art. 11 No. 1 sentence 2 of the statutes of BASF SE).

In addition, Section 11 No. 1 sentence 3 of the statutes of BASF SE stipulates that for the election of the chairman of the supervisory board, the oldest member in terms of age among the shareholder representatives on the supervisory board is to have the chair. In case of an equality of votes, his vote is to be the casting vote. This stipulation was included in order to safeguard, for the election of the chairman, the casting vote – provided for by statute – of the chairman, who is to be appointed by the shareholder representatives (cf. Art. 50 para. 2 sentence 2 SE Regulation), and thus to avoid deadlocks in the course of the election of the chairman.

In case the membership of the chairman or one of his deputies ceases before the expiry of his term of office, pursuant to Art. 11 No. 2 of the statutes of BASF SE the supervisory board of BASF SE is to conduct a new election for the office without undue delay.

l) Convening, Quorum, Voting of the Supervisory Board (Art. 12 of the Statutes)

Meetings of the supervisory board of BASF SE are to be convened and the place of such meetings determined by the chairman or, in case he is unavailable, by his deputy. All meetings are to be convened by at least a fortnight's notice in writing. The individual items on the agenda are to be specified so that it is possible to vote by correspondence. In urgent cases, the convening period may be shortened. In the event that the chairman or, if he is unavailable, his deputy so determines in an individual case, meetings may also be held using the communications or individual members of the supervisory board may take part in meetings using telecommunications. This stipulation made in Art. 12 No. 1 of the statutes of BASF SE is identical to the stipulation presently contained in Art. 10 No. 4 of the articles of association of BASF AG.

As is presently the case at BASF AG, the supervisory board constitutes a quorum only if, after all members have been invited, at least one half of the total number of members which it is required to have participates in the passing of a resolution (Art. 12 No. 2 of the statutes of BASF SE). This provision reflects Art. 50 para. 1 lit. a) SE Regulation.

Unless stipulated otherwise by law, pursuant to Art. 12 No. 2 sentence 2 of the statutes of BASF SE, resolutions of the supervisory board require the majority of the votes cast, which follows the stipulation in Art. 50 para. 1 lit. a) SE Regulation. In the event that a member of the supervisory board abstains from voting, such member participates in the resolution; however – as is the case at BASF AG – the abstention does not count as a vote cast. In the case of a parity of votes, the vote of the chairman, or, if he does not participate in the passing of the resolution, the vote of the deputy chairman, provided that he is a shareholder representative, shall be decisive.

The members of the supervisory board may, if prevented from attending a meeting, arrange for their written vote to be submitted at the supervisory board meeting by other members of the supervisory board. A vote transmitted by telefax or by means of electronic media shall be deemed to be a written vote. In the case of the chairman of the supervisory board, this also applies with regard to his casting vote. The chairman of the supervisory board or, if he is unavailable, his deputy may cause a resolution of the supervisory board to be passed by obtaining declarations in writing, by telefax or telephone or transmitted by means of other

electronic media. This provision in Art. 12 No. 3 of the statutes of BASF SE corresponds to the existing provision in Art. 10 No. 6 of the articles of association of BASF AG.

Pursuant to Art. 12 No. 4 of the statutes of BASF SE, the members of the board of executive directors of BASF SE are entitled to attend the meetings of the supervisory board in an advisory capacity unless the chairman of the supervisory board or the supervisory board excludes such right in an individual case. This stipulation corresponds to Section 10 para. 3 of the articles of association of BASF AG.

Declarations of intent on behalf of the supervisory board shall be made by the chairman or, if he is unavailable, by his deputy. This provision in Art. 12 No. 5 of the statutes of BASF SE was adopted from Art. 10 No. 7 of the articles of association of BASF AG.

Pursuant to Art. 12 No. 6 of the statutes of BASF SE, the supervisory board is authorized to make amendments to the statutes which only concern their wording. This stipulation is identical to the stipulation contained in Art. 17 No. 2 sentence 2 of the articles of association of BASF AG.

m) Transactions Requiring Consent (Art. 13 of the Statutes)

In its Art. 13 No. 1, the statutes of BASF SE expressly provide for requirements of supervisory board consent for certain transactions of the board of executive directors. According to these provisions, the consent of the supervisory board is required for

- (i) the acquisition and disposal of enterprises, interests in enterprises and parts of enterprises, provided that the acquisition or disposal price in an individual case exceeds 3 percent of the equity reported in the last consolidated financial statements of the Company which were approved by the supervisory board. This does not apply in the event of intra-group acquisitions and disposals.
- (ii) commencement of operations in new and cessation of operations in existing areas of business to the extent that this is of significant importance for the entire Group;
- (iii) the issuing of bonds and comparable financial instruments, the taking up of and granting of long-term loans and the granting of guarantees, warranties or other assumptions of liability, provided that in an individual case the latter exceed 3 percent of the equity reported in the last consolidated financial statements of the Company which were approved by the supervisory board. This does not apply to the taking up and granting of loans and the granting of securities within the company group.

The transactions requiring consent have been determined in deviation from Art. 11 No. 1 of the articles of association of BASF AG. The purpose of the revision is to focus the requirements of consent of the supervisory board on strategic measures and such transactions which are of significant importance for the entire BASF Group. The required consent of the supervisory board may also be granted in the form of a general authorization for certain kinds of the transactions requiring consent. Such authorizations have to state specifically the eligible transactions as well as their purpose and the period of time within which they have to be conducted. This provision in Art. 13 No. 2 of the statutes of BASF SE is identical to the one in Art. 11 No. 2 of the articles of association of BASF AG.

n) Remuneration of the Supervisory Board (Art. 14 of the Statutes)

The provisions governing the remuneration of the supervisory board in Art. 14 Nos. 1 to 5 of the statutes of BASF SE have been adopted, without change of their content, from Art. 12 Nos. 1 to 5 of the articles of association of BASF AG. In Art. 14 No. 1 b) of the statutes of BASF SE, the minimum EPS value for the financial year 2007 and the other EPS thresholds have been adjusted to Euro 2.60, Euro 4.10 and Euro 5.10, respectively, in accordance with the provisions in Art. 12 No. 1 b) sentences 5 and 6 of the articles of association of BASF AG.

With regard to the members of the first supervisory board, the remuneration provisions laid down in Section 14 of the statutes of BASF SE do not apply (Art. 9 para. 2 lit. c)(ii) SE Regulation in connection with Section 113 para. 2 AktG). Insofar, the remuneration is within the discretion of the general meeting of shareholders of BASF SE which resolves upon the formal discharge of the members of the first supervisory board. Taking into account the procedure for the involvement of employees which has to be conducted, this will presumably be the annual general meeting of BASF SE in the year 2009. A resolution adopted by an earlier general meeting would be invalid.

o) Confidentiality (Art. 15 of the Statutes)

As is presently the case with the members of the supervisory board of BASF AG, the members of the supervisory board of BASF SE have to keep secret any confidential information, reports and consultations as well as secrets of the Company, in particular company and business secrets, that have become known to them in connection with their work as members of the supervisory board. Upon retirement from office, every member of the supervisory board has to return to the Company all confidential documents of the

Company still held by him. The provisions relating to confidentiality respond to Art. 13 of the articles of association of BASF AG.

p) Convening the General Meeting (Art. 16 of the Statutes)

As is presently stipulated in Art. 15 No. 1 of the articles of association of BASF AG, the general meeting has to be convened with at least 30 days' notice prior to the day by the end of which the shareholders have to register for participation in the general meeting.

Pursuant to Art. 54 para. 1 SE Regulation, a general meeting is held at least once each calendar year within six months of the completion of the financial year. Accordingly, it is now stipulated in Art. 16 No. 2 of the statutes of BASF SE that the general meeting which resolves, in particular, on the distribution of retained profits, on the appointment of the auditor, on the formal discharge of the members of the board of executive directors and the supervisory board, on the appointment of the members of the supervisory board and, to the extent required by law, on the approval of the financial statements and the consolidated financial statements, is to be held within the first six months after the conclusion of a financial year.

The general meeting is to take place at the Company's registered office or in another city in the Federal Republic of Germany with at least 100,000 inhabitants (Art. 16 No. 3 of the statutes of BASF SE). Under Art. 14 of the articles of association of BASF AG, the general meeting could also be held in a city in the Federal Republic of Germany with at least 50.000 inhabitants.

Pursuant to Art. 16 No. 4 of the statutes of BASF SE, the annual general meeting of shareholders is convened by the board of executive directors. In addition, a general meeting may be convened at any time by the board of executive directors or by the supervisory board and the convening of the general meeting and the drawing-up of the agenda therefore may be requested by one or more shareholders who together hold at least 5% of the subscribed capital.

q) Participation in the General Meeting (Art. 17 of the Statutes)

The stipulations concerning participation in the general meeting in Art. 17 Nos. 1 to 3 of the statutes of BASF SE reflect the provisions in Art. 15 Nos. 2 to 4 of the articles of association of BASF AG. Under these provisions, the right to attend and vote at a general meeting is restricted to those shareholders who have registered for attendance before the general meeting in writing, in accordance with the stipulations of the statutes.

r) Chairman of the General Meeting (Art. 18 of the Statutes)

The provisions in Art. 18 Nos. 1 and 2 of the statutes of BASF SE were adopted from Art. 16 Nos. 1 and 2 of the articles of association of BASF AG. The chairman of the supervisory board of BASF SE presides as chairman at the general meeting of shareholders; if he is unavailable, a member of the supervisory board chosen by the supervisory board members who were elected by the general meeting as shareholder representatives from their ranks takes the chair. In the event that no member of the supervisory board who was elected by the general meeting as a shareholder representative takes the chair, the chairman shall be elected by the general meeting of shareholders.

As is presently provided for in Art. 16 No. 2 of the articles of association of BASF AG, the chairman of the general meeting may determine a sequence of the items of the agenda which deviates from the sequence announced in the agenda. Within the framework of applicable legal provisions, the chairman determines the course of the proceedings at the general meeting, in particular the sequence of speakers as well as the manner, form and sequence of the voting. At the beginning or in the course of the General Meeting, the chairman may reasonably restrict, in terms of time, the right of shareholders to put questions and to speak; such restriction may be employed for the whole course of the general meeting, for the discussion on individual items of the agenda as well as for individual questions and speaking contributions (Art. 18 No. 2 of the statutes of BASF SE).

s) Voting and Resolutions (Art. 19 of the Statutes)

Each share will continue to entitle the holder to one vote at the general meeting. In the future, resolutions of the general meeting of BASF SE require a majority of the votes cast, unless a larger majority or further requirements are stipulated by law.

Thus, resolutions of the general meeting always require the majority stipulated by statutory law. These are the majorities stipulated both in the SE Regulation and by national law (AktG, UmwG), even if these statutes allow for an alteration of these majorities in the statutes. In contrast to the provision in Art. 17 No. 2 of the articles of association of BASF AG, the statute of BASF SE do not provide for a reduction of the required majorities which is permitted by statutory law.

t) Financial Statements (Art. 20 of the Statutes)

The provisions relating to the financial statements follow the stipulations in Art. 18 of the articles of association of BASF AG, with the exception that the consolidated financial

statements also have to be prepared within the first three months of the financial year. Under these provisions, the board of executive directors has to prepare, in the first three months of the financial year, the financial statements and management report as well as the consolidated financial statements and the group management report for the preceding financial year and promptly thereafter submit them to the supervisory board and to the auditor. At the same time, the board of executive directors shall submit to the supervisory board the proposal for the distribution of retained profits which it intends to submit to the general meeting.

u) Distribution of Retained Profits (Art. 21 of the Statutes)

The stipulations regarding the distribution of retained profits correspond to the stipulations in Art. 20 of the articles of association of BASF AG. The retained profits resulting from the financial statements after depreciation, value adjustments, provisions and reserves shall be distributed among the shareholders, unless the general meeting resolves otherwise. Instead of or in addition to a cash distribution, a distribution in kind may also be resolved by the general meeting.

v) Formation Expenses (Art. 22 of the Statutes)

Section 22 para. 3 of the statutes of BASF SE stipulates that with regard to the conversion of BASF AG into BASF SE the formation expenses up to an amount of Euro 5 million are borne by the Company.

3. German Corporate Governance Code

Pursuant to Section 161 AktG, the board of executive directors and the supervisory board of listed stock corporations have to declare on an annual basis that the recommendations of the "Government Commission on the German Corporate Governance Code" published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette have been and are being complied with or which of the recommendations have not been or are not being applied. The declarations have to be made permanently accessible to the shareholders. The German Corporate Governance Code contains essential provisions regarding management and supervision (company management) and includes both stipulations describing German provisions of statutory law and recommendations (*Empfehlungen*) and suggestions (*Anregungen*). Only the statutory provisions have a binding character for enterprises. With regard to the recommendations, Section 161 AktG stipulates that listed companies have to declare on an annual basis whether they deviate from the recommendations (so-called declaration of conformity).

BASF AG has last issued a declaration of conformity on December 6, 2006, which is available on the website of the Company (www.basf.com). Therein, the Company has declared that it is in compliance with the recommendations of the German Corporate Governance Code with few exception which are specified therein.

The SE Regulation does not contain any express provisions on the applicability of the German Corporate Governance Code. However, by virtue of Art. 9 para. 1 lit. c)(ii) SE Regulation the provision in Section 161 AktG is applicable with the consequence that BASF SE – as BASF AG – has to declare on an annual basis whether it is in compliance with the recommendations of the German Corporate Governance Code.

4. Other Corporate Law Effects

a) Legal Effects of the Conversion

Upon the registration of BASF SE in the commercial register at the registered office of the Company the conversion of BASF AG into BASF SE becomes effective.

The conversion of BASF AG into an SE does neither lead to a liquidation of the Company nor to the formation of a new legal entity (cf. Art. 37 para. 2 SE Regulation). Rather, it is a case of the change of the legal form in the course of which the legal and economic identity of the Company are being maintained. There is no transfer of assets. The interests of the shareholders in the Company continue to exist because of the identity of the legal entity. However, there is a change of the set of legal rules applicable to the legal form (discontinuity of constitution) (cf. also chapter IV. of this report).

In addition, Art. 37 para. 9 SE Regulation expressly stipulates that the rights and obligations of the company to be converted arising from employment contracts or employment relationships existing at the point in time of the registration are being transferred, as regards the terms and conditions of employment, to the SE upon its registration.

b) Dividend Entitlements

The dividend entitlements of the shareholders do not change by virtue of the conversion of BASF AG into BASF SE.

c) Shareholder Structure of BASF SE After the Implementation of the Conversion

Since the interests held in the Company by the shareholders of BASF AG continue to exist unchanged because of the identity of the legal entity, the proportions of shareholdings do not

change by virtue of the conversion of BASF AG into BASF SE. The shareholders receive the same number of shares they held in BASF AG prior to the conversion becoming effective. The arithmetic portion of Euro 2.56 of each no-par value share in the subscribed capital is maintained.

VII. Accounting and Tax Effects of the Conversion

The conversion of BASF AG into an SE does neither lead to a liquidation of the Company nor to the formation of a new legal entity (cf. Art. 37 para. 2 SE Regulation). The legal and economic identity of the company will be preserved. With regard to the preparation of and any other stipulations relating to the annual financial statements and the management report as well as the consolidated financial statements and the group management report the provisions applicable to a German stock corporation apply. Thus, the conversion does not have any accounting effects.

The conversion of BASF AG into an SE with its registered office in Germany which preserves the legal identity can be achieved in a manner which is neutral from a taxation point of view. Future dividend payments of BASF SE as well as transfers of BASF shares have, in principle, the same taxation consequences for the shareholders of BASF SE, for the purposes of German income taxation, as dividend payments and transfers prior to the conversion, unless there is a change of the applicable laws or of the factual circumstances. The conversion of BASF AG into an SE does not trigger any significant German capital investment tax, sales tax or stamp duty.

It is recommended that the shareholders of BASF AG consult their tax advisors with regard to potential tax-relevant circumstances in their individual cases.

VIII. Securities and Stock Exchange Trading

1. Effects of the Conversion on the Shares of BASF SE

As a result of the conversion, the current shareholders of BASF AG will, by operation of law, become shareholders of BASF SE upon the taking effect of the conversion of BASF AG into an SE. As before, the shares of BASF SE will also be no-par value shares made out to the bearer.

As a consequence of the conversion of BASF AG into an SE, the actual share certificates of BASF AG become incorrect and are to be cancelled (Section 73 para. 1 AktG). The shares of BASF SE are to be evidenced solely by collective share certificates and are to be held exclusively in a collective deposit of securities (*Girosammelverwahrung*).

2. Effects of the Conversion on the Stock Market Listing

The shares of BASF AG are listed on the official market of the Frankfurt Stock Exchange, on the London Stock Exchange, the Swiss Exchange as well as on the German regional stock exchanges. In the form of *American Depositary Receipts* (ADRs), the shares of the Company are traded on the NYSE.

The conversion does not affect the stock exchange admissions and the stock exchange trading of the shares of BASF AG. The shareholders of BASF AG will continue to be able without changes, after the conversion of BASF AG into BASF SE, to trade their BASF SE shares on all stock exchanges on which the shares are currently listed.

Further, the conversion does not have any effects of the inclusion of the BASF SE shares in the stock indexes DAX 30, DJ STOXX 50, DJ EURO STOXX 50, DJ Chemicals, MSCI World Index and S&P Global 100, Dow Jones Sustainability Index and FTSE 4 Good Index.

Ludwigshafen, February 27, 2007

BASF Aktiengesellschaft

The Board of Executive Directors

Hambrecht

Voscherau

Bock

Brudermüller

Feldmann

Kreimeyer

Loebbe

Marcinowski

Oakley

Part D

**Report on the Audit in the Course of the Conversion pursuant to
Art. 37 para. 6 SE Regulation**

**BASF Aktiengesellschaft
Ludwigshafen am Rhein**

Report on the Audit in the Course of the
Conversion pursuant to Art. 37 para. 6 SE Regulation

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Annex

GENERAL ENGAGEMENT TERMS FOR WIRTSCHAFTSPRÜFER AND
WIRTSCHAFTSPRÜFUNGSGESELLSCHAFTEN (GERMAN PUBLIC AUDITORS
AND PUBLIC AUDIT FIRMS) AS OF JANUARY 1, 2002

1 Engagement and Execution of the Engagement

Upon an application of the board of executive directors of BASF AG

**BASF Aktiengesellschaft,
Ludwigshafen am Rhein,**

– hereinafter also referred to in short as “BASF AG” or “Company” –

the District Court (*Landgericht*) Frankenthal (Pfalz) has appointed us, by court order of February 1, 2007, as an expert for the preparation of a attestation pursuant to Art. 37 para. 6 SE Regulation.

The attestation is required because of the intention of BASF AG to convert into a European Company (SE) pursuant to Art. 2 para. 4 SE Regulation. It is intended that the annual general meeting of shareholders of BASF AG on April 26, 2007, adopt a resolution regarding this conversion.

Pursuant to Art. 37 para. 6 SE Regulation, the conversion auditor in effect has to attest, in accordance with Directive 77/91/EEC, that the net assets of the company are at least equivalent to its subscribed capital plus those reserves which pursuant to statutory provisions or the statutes may not be distributed.

We have conducted the audit in February 2007.

As a basis for our information we have used, in particular, the following documents:

- Financial planning of the Company regarding the development of BASF Group headed by it as a parent company for the years 2007 to 2009
- Financial statements and consolidated financial statements of BASF AG as of December 31, 2006, certified by KPMG with unqualified audit opinions
- Articles of association of BASF AG as amended on December 6, 2006
- Draft conversion plan and conversion report of BASF AG for the intended conversion into an SE

In accordance with applicable professional principles, we have limited the individual auditing activities to the extent necessary. The board of executive directors of BASF AG has issued to us a declaration of completeness in accordance with professional practice according to which all statements which are relevant for our audit have been made correctly and completely.

With regard to our completion of the task and our responsibility, including relationships with third parties, in addition to Section 323 HGB, the “General Engagement terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften” as amended on January 1, 2002, which are enclosed with this document, apply.

This report is exclusively intended for the purpose of information of the corporate bodies of BASF AG, for the purpose of submission to the shareholders in the course of the general meeting of shareholders on April 26, 2007, in connection with the resolution concerning the conversion of the Company into an SE as well as for the purpose of filing with the commercial register. Any further distribution to third parties is only permissible with the prior consent of Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft.

2 Legal and Economic Situation

The Company is registered under HR B No. 3000 with the Local Court (*Amtsgericht*) Ludwigshafen under the **company name** "BASF Aktiengesellschaft" with its registered office in Ludwigshafen am Rhein.

As of December 31, 2006, the subscribed capital amounted to Euro 1,282,790,400.00 Euro and is divided into 501,090,000 no-par value shares. Taking into account 1,410,000 no-par value shares which are held as treasury shares designated for redemption, a subscribed capital of €1,279,180,800.00 is recorded in the balance sheet as of December 31, 2006.

Pursuant to Section 3 No. 7 of the articles of association, the board of executive directors is authorized, with the consent of the supervisory board, to increase until May 1, 2009, on a one-off basis or in portions on a number of occasions, the subscribed capital by a total of up to Euro 500,000,000.00 by issuing new shares against contributions in cash or in kind (authorized capital). So far, this authorization has not been utilized by their board of executive directors; pursuant to Art. 3 No. 3.4 (ii) of the draft conversion plan, this provision is being adopted in the new statutes of BASF SE.

Pursuant to Section 3 No. 8 of the articles of association, the subscribed capital is conditionally increased in an amount of up to Euro 4,815.36, divided into 1,881 shares. The conditional capital increase will only be implemented to the extent to which the former shareholders of Wintershall Aktiengesellschaft make use of their conversion rights in connection with the integration into BASF Aktiengesellschaft.

Further, pursuant to Section 3 No. 9 of the articles of association, the subscribed capital is conditionally increased by up to Euro 384,000,000.00 by issuing shares made out to the bearer, divided into up to 150,000,000 shares. The conditional capital increase will only be implemented to the extent that the holders of warrants attached to the option certificates issued by the Company until to April 1, 2006, make use of their option rights.

Finally, pursuant to Section 3 Nos. 10 and 11 of the articles of association, the subscribed capital is conditionally increased, in each case, by up to Euro 38,400,000.00, divided in each case into up to 15,000,000 shares. These increases in the conditional capital will only be implemented to the extent that the holders of subscription rights which the Company has granted to members of the board of executive directors and employees of the Company as well as to members of the management and employees of

affiliated companies as a component of performance-related remuneration make use of these subscription rights (conditional capitals BASF Stock Option Program BOP 1999/2000 and 2001/2005).

Pursuant to Art. 3 No. 3.4 (ii) of the draft conversion plan, the conditional capitals provided for in Section 3 Nos. 8 to 11 of the articles of association have become irrelevant or the underlying claims have become subject to the statute of limitations, respectively.

The **financial year** corresponds to the calendar year.

The **corporate bodies** of BASF AG are the board of executive directors, the supervisory board and the general meeting of shareholders.

The legal foundations are the articles of association, last amended on December 6, 2006. The **corporate purpose** of the Company is to engage in the following areas of activity:

- activity in the field of chemistry and related branches of science and technology
- the production, processing, sale of and dealing in chemical products of all kinds, in particular petrochemicals and inorganics, fertilizers, industrial and special chemicals, intermediates, plastics, synthetic fibers and fiber intermediates, colorants and finishing products
- the provision of services in the field of health and nutrition, in particular the production, sale of and dealing in pharmaceuticals, crop protection agents, seeds, vitamins, biotechnological products, pharmacologicals and products for animal nutrition and health
- the extraction, production, sale of and dealing in oil, natural gas, mineral oil products and energies
- the development, production and sale of products and the provision of services in the area of environmental technology, in particular in the field of waste and sewage treatment and disposal
- the design, production and sale of technological equipment and plants and the provision of other engineering and design services.

In pursuit of this corporate purpose, BASF AG is active in the segments chemicals, plastics, performance products as well as agricultural products and nutrition. As the parent company of BASF Group, BASF AG has central holding company functions and, in addition, is the largest operational company of BASF-Group. In addition to the aforementioned segments, subsidiaries of BASF Group are also active in the oil and gas segment.

The **balance sheet of BASF AG as of December 31, 2006**, which forms part of the annual financial statements that were provided with an unqualified audit opinion, can be summarized as follows:

ASSETS		STOCKHOLDERS' EQUITY AND LIABILITIES	
	Million €		Million €
Intangible assets	183.6	Stockholders' equity	10,196.9
Property, plant and equipment	1,519.3	Special items with a capital surplus portion	108.3
Financial assets	17,439.8	Provisions	6,194.9
Fixed Assets	19,142.7	Liabilities	20,580.8
Inventories	1,360.4	Accruals and deferrals	98.6
Accounts receivable and other assets	12,404.8		
Liquid funds	3,863.4		
Deferred taxes	374.7		
Accruals and deferrals	33.5		
	<u>37,179.5</u>		<u>37,179.5</u>

At approx. 47%, financial assets represent the largest part in the balance sheet total. This reflects that, in addition to its own operational activities, BASF AG also has a significant function as the holding company of BASF Group.

With an amount of €10.5 billion, the accounts receivable and other assets mostly comprise accounts receivable from affiliated companies.

The liabilities include financial liabilities in an amount of €7.6 billion. However, in this respect, too, the largest single item are the liabilities to affiliated companies with an amount of €12.1.

3 Stockholders' Equity within the Meaning of Art. 37 para. 6 SE Regulation

The stockholders' equity in the amount of €10,196.9 million shown in the balance sheet as of December 31, 2006, consists of the following items:

	Million €
Subscribed capital	1,279.2
Capital surplus	3,031.8
Retained earnings	3,660.8
Profit retained	2,225.1
	<u>10,196.9</u>

In connection with the deferred taxes recorded in an amount of €374.7 million as of December 31, 2006, there is a distribution prohibition pursuant to Section 274 para. 2 sentence 3 HGB, with the consequence that insofar the retained earnings cannot be distributed.

Thus, the stockholders' equity within the meaning of Art. 37 para. 6 SE Regulation as of December 31, 2006, amounts to €4,685.7 million and includes the following items:

	Million €
Share capital (subscribed capital)	1,279.2
Capital surplus	3,031.8
Non-distributable retained earnings	374.7
	4,685.7

4 Nature and Extent of our Auditing Activities

BASF AG with its registered office in Ludwigshafen is to be converted into an SE pursuant to Art. 2 para. 4 SE Regulation. The conversion of an AG into an SE pursuant to Art. 2 para. 4 SE Regulation does neither lead to a liquidation of the company, nor to the formation of a new legal entity, nor to a relocation of the registered office, Art. 37 paras. 2 and 3 SE Regulation. In this respect, the process can be compared to a conversion involving a change of the legal form pursuant to the German Transformation Act (*UmwG*) (cf. Heckschen, in: Widmann/Mayer, Umwandlungsrecht Annex 14, no. 372).

The registration of the conversion into an SE requires, amongst other things, that the net assets of the company (required amount) are at least equivalent to its subscribed capital plus those reserves which pursuant to statutory provisions or the statutes may not be distributed (actual amount), Art. 37 para. 6 SE Regulation. Pursuant to Artt. 10 and 15 para. 1 SE Regulation, in the present case the provisions in Sections 23 et seqq. AktG and 190 et seqq. UmwG generally apply. However, according to the prevailing opinion, no separate formation audit pursuant to Section 33 para. 2 no. 4 AktG is required in the case of the conversion of an AG into an SE, particularly since capital coverage is already ensured by the audit pursuant to Art. 37 para. 6 SE Regulation (cf. Schwarz, SE-VO Kommentar, Art. 37 no. 74; Neun, in: Theisen/Wenz, Die Europäische Aktiengesellschaft, 2nd ed. 2005, pp. 183 f.; Jannott, in: Handbuch der Europäischen Aktiengesellschaft, p. 94; contrary view: Schröder, in: Manz/Mayer/Schröder, Europäische Aktiengesellschaft SE, Art. 15 no. 54).

Where entire enterprises, parts of enterprises or operational units which can be valued separately are being contributed as contributions in kind, according to the currently prevailing opinion the **required amount** is equivalent – except in special cases (where the liquidation value is higher) – to the (objectified) capitalized earnings value of the contribution in kind (cf. Lutter, Section 183 AktG no. 48; Angermayer, Die aktienrechtliche Prüfung von Sacheinlagen, 1994, p. 282; Penne, Die Prüfung der

Sacheinlagen nach Aktienrecht, 1983, p. 255). Therefore, in the present case, too, the (objectified) capitalized earnings value of BASF AG as an enterprise in its entirety – and not the balance of the fair values of all its individual assets and liabilities – is relevant for the determination of the net asset value (cf. further for the valuation of the assets in the balance sheet of previous charges (*Vorbelastungsbilanz*) of a GmbH in formation (*Vor-GmbH*) BGH, judgment of November 9, 1998, II ZR-190/97).

The determination of the (objectified) capitalized earnings value is made in accordance with the Principles for the Conduction of Enterprise Valuations (IDW S1) set forth in the IDW Standard S1, supplemented by the principles for the valuation of interests for the purposes of financial statements prepared in accordance with commercial law in accordance with the Comments on Accounting (*Stellungnahme zur Rechnungslegung*) of the Main Technical Committee of the IDW (IDW RS HFA 10).

The **capitalized earnings value** is the present value of the future excess of receipts over expenses. This present value is calculated on the basis of a discount rate representing the yield of an alternative investment which is adequate to an investment in the business to be valued (cf. IDW S 1, para. 4).

BASF AG is the parent company of BASF Group. In the case of the valuation of a parent company such as BASF AG, two valuation concepts can be distinguished (cf. Meichelbeck, in: *Praxishandbuch der Unternehmensbewertung*, 3rd ed. 2005, p. 449):

- Each enterprise or segment of the group, respectively, is valued separately and in an isolated manner; the value of the group in its entirety is being determined by way of addition of the individual values (“sum of the parts”).
- The value of the group in its entirety is being determined as a comprehensive value on the basis of the aggregated results of the business unit “group”.

For an estimate of the range of the capitalized earnings value of BASF AG as of December 31, 2006, we were provided with the financial planning for the development of BASF Group, of which it is the parent company, for the years 2007 to 2009, which we have compared to the earnings achieved by BASF Group in the last three years. In the years 2004 to 2006, BASF Group generated net income after minority interests in the amount of €2.0 billion (2004), €3.0 billion (2005) and €3.2 billion (2006), respectively.

The basis for the determination of the discount rate can be seen, in particular, in the capital market returns of participations in enterprises (in the form of share portfolios). For the purposes of the objectified valuation of enterprises, it is being assumed that, in general, the returns for participations enterprises consist of a basic interest rate and a risk premium demanded by the shareholders because of the assumption of entrepreneurial risk (cf. IDW S 1, para. 125).

The determination of the basic interest rate is to be made on the basis of the customary local interest rate for a (quasi) risk-free capital markets investment, and thus on the basis of the long-term returns obtainable

from bonds issued by public authorities (cf. IDW S 1, para. 126). Taking into account an estimation approach of the German Central Bank, the Nelson-Siegel-Svensson method, a current basic interest rate of 4.25 % can be deducted.

The risk premium demanded by equity investors, z , is calculated in accordance with the simple pre-tax CAPM model with $z = \beta * (r_M - i)$, whereas β (the beta factor) expresses the level of individual risk of the object of the valuation, r_M expresses the return of the market portfolio and i expresses the customary local interest rate. However, in reality the share returns assumed as alternative investments as well as the risk premiums contained therein are being influenced by the effects of the personal income tax situation of the holders of the shares. Therefore, it is recommended in IDW S 1, paras. 129 et seq., that the so-called Tax CAPM method be used for the purposes of an objectified valuation of enterprises. For reasons of simplification, we have made the estimate of the range of the capitalized earnings value without taking into consideration the personal tax situation of shareholders and, therefore, have applied the CAPM model which is not modified to reflect tax effects. In accordance with that model, the alternative investment is the sum of the risk-free basic interest and a risk premium, in each case without income taxes.

According to empirical research on the basis of the German market index CDAX, the arithmetic mean of the market risk premium before taxes for long-term, historical observation periods is approx. 5.5 %. For a projection of the future development, a discount of 1 to 1.5 % is generally regarded as necessary. From this, market risk premiums between 4.0 % and 5.0 % can be deducted (cf. IDW Fachnachrichten 2005, p. 555; STEHLE, WPg 2004, p. 921).

According to the evaluation of capital markets data of financial information service provider Bloomberg L.P., New York, the observable beta factor of BASF is between 0.9 and 1.1.

The growth reduction in the discount rate takes into account a long-term progressive growth of distributable earnings which in the course of a nominal calculation is not included in the infinite constant rate of cash flows.

Where the future earnings already reflect expected increases in receipts and expenses caused by inflation and, thus, are conceived as nominal amounts, there is no equivalence problem in comparison to the standardized alternative investment (cf. IDW S 1, para. 103). In the present case, this applies to the future earnings for the years 2007 to 2009.

From the year 2010 onwards, in view of the capital markets situation and the currently low rate of inflation, we regarded a growth reduction of one percentage point as adequate in order to allow for the chance of an increase of the results induced by price or volume.

On the basis of the ranges mentioned above, a discount rate (including the growth reduction for the years from 2010 onwards) in a range between 6.85 % and 8.75 % can be deducted.

In accordance with IDW S1 (para. 15), we have also made reference, for an assessment of plausibility, to the **market capitalization** resulting from the share prices of BASF AG. As of December 29, 2006, the market capitalization amounted to approx. €37.0 billion on the basis of a share price of €73.85. In January 2007, the share price did not change significantly. Since February 1, 2007, the share price has been consistently above €75.00.

The capital within the meaning of Art. 37 para. 6 SE Regulation (**actual amount**) to be compared to the net asset value amounts to €4,685.7 million (cf. chapter 3).

On the basis of the financial planning as well as the market capitalization, a range can be deducted for the net asset value of BASF AG within the meaning of Art. 37 para. 6 SE Regulation which is a multiple of the capital within the meaning of Art. 37 para. 6 SE Regulation. We have, therefore only conducted an estimate of the range of the capitalized earnings value of BASF AG as per December 31, 2006.

According to our rough estimate, the net asset value of BASF AG is significantly higher than the capital within the meaning of Art. 37 para. 6 SE Regulation in the amount of €4,685.7.

5 Attestation

In accordance with Art. 37 para. 6 SE Regulation, we attest:

“According to the final result of our dutiful audit pursuant to Article 37 para. 6 SE Regulation and on the basis of the documents, account books and papers presented to us as well as the information and confirmations given to us, we attest that BASF AG has net asset values at least in the amount of its subscribed capital plus those reserves which, pursuant to statutory law or the articles of association, may not be distributed.”

Hannover, February 26, 2007
111292/ba

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

(Dr. Beine)
Wirtschaftsprüfer
(German Public Auditor)

(Bukowski)
Wirtschaftsprüfer
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